The MAGAZINE of WALL STREET and BUSINESS ANALYST

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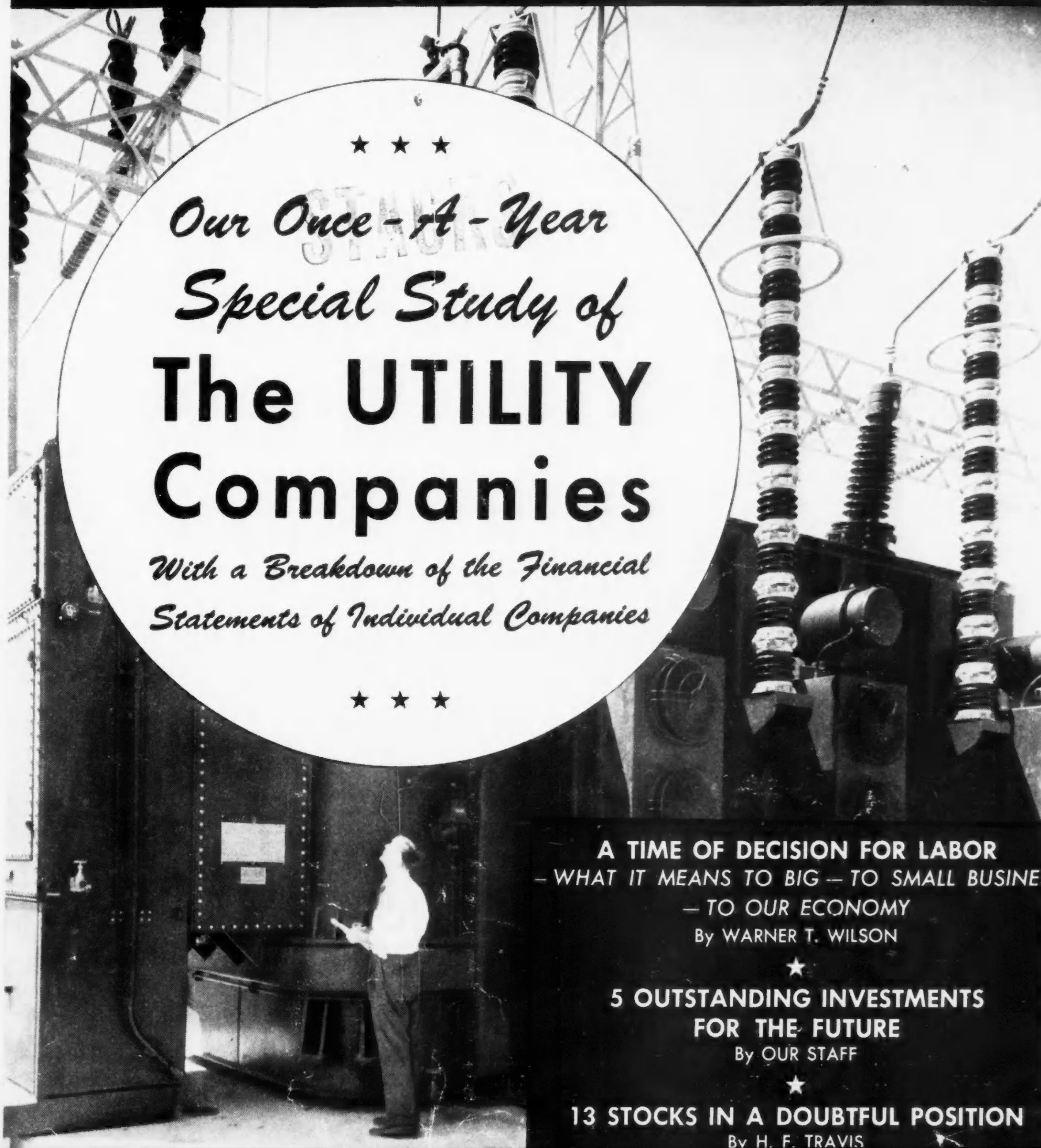

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The UTILITY Companies

With a Breakdown of the Financial Statements of Individual Companies

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A TIME OF DECISION FOR LABOR
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THE MAGAZINE OF WALL STREET
and BUSINESS ANALYST

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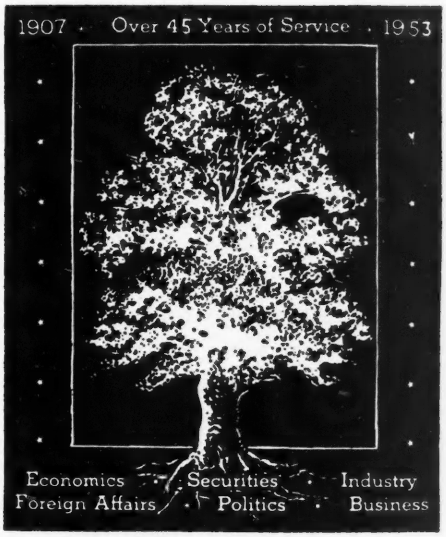
THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Editor-Publisher*



The Trend of Events

A YOUNG QUEEN AND AN OLD EMPIRE... The deeply moving ceremony at Westminster Abbey which solemnized the coronation of Queen Elizabeth the Second will long be remembered. It is not merely as a symbol of a thousand-year old tradition that the occasion was memorable but as an expression of the deep-seated longing of a great people to re-establish their once dominant role in a world that their forebears would not recognize. And while this valiant nation gave homage to its new and youthful Queen, the world at large paused for a moment to give homage to the people themselves. For it has not forgotten the lonely and bitter days of Dunkirk and the patient suffering under the bombs of the Luftwaffe.

If we have found occasion in the past—and probably will again—to find fault with this or that policy of the British goverment, it is only fitting to acknowledge our appreciation of that government's efforts to better the position of their country. We, in this country, may not have agreed, of late, with some of Sir Winston's views, but know full well that he is John Bull incarnate; and in our hearts we admire him for his unswerving allegiance to his country and people. We feel sure that Americans will join us in wishing him, his new Queen and the British people the best of fortune in the days ahead.

FARM PROBLEM... Every thinking person knew all the time there was only one end to the Roosevelt policy of propping farm prices: Collapse under the double weight of unsalable farm staples and enormous expenditures which were obviously producing no benefits either to the farmer or to the country at large.

However, the Treasury was rich. The nation was tolerant. The very failures of the program, like the eight-million-bale hoard of cotton on hand when World War II broke out, turned into godsends. War and its aftermath of distress made the vast stores of food grains engines of reconstruction. The day of collapse seemed far, far off.

Suddenly that day is just around the corner. There may be no place to put the wheat and corn which will move into the government purchase and loan programs if crops this year come up to expectation. Already there are 258.5 million bushels of wheat in government hands, and another 365 million pledged under non-recourse loans made at higher price levels. For corn the figures are 244.6 million bushels owned and 254 million pledged. Prices of all grains on the commodity markets today reflect the fear that this year's wheat and corn crops will overflow all possible storage and flood the market.

Assuming that storage space can be improvised, President Eisenhower and Congress can continue the hopeless course of supporting prices with no limits on production. They can restore the New Deal system of limiting production as a condition of supporting prices. They can junk the whole system and restore the free market.

Down the first road lies bankruptcy. (*Cont. next page*)

We recommend to the attention of our readers the analytical discussion of business trends contained in our column "What's Ahead for Business?" This regular feature represents a valuable supplement to Mr. A. T. Miller's stock market analysis of importance to investors as well as to business men. To keep informed of the forces that may shape tomorrow's markets, don't miss it!

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS : : 1907 – *"Over Forty-five Years of Service"* – 1953

The second will bring back all the irritations and suspicions of pre-war production control. By law, Secretary of Agriculture Benson must offer wheat farmers within the next month the alternatives of acreage cuts or a drop in price supports to about $1.35 a bushel on the farm. If the farmers vote to go it alone, the Treasury will be off the hook, but as a device to keep the farmers happy a floor of $1.35 a bushel seems less than ideal.

The third course of return to a free market, we are constantly warned by spokesmen for the farm bloc in both parties, means political suicide for the Republicans in the 1954 Congressional election. It is permissible to doubt this. After all, there are non-farm voters, and they would be happy to see the President's promises of budget balance and tax cuts brought closer by an end to the farm price support drain. There must be self-respecting farmers who take the handouts when they are available, but would prefer to see them ended. The device of parity prices —basing the farmer's price per bushel on the most favorable period of the past, regardless of the effect of changing techniques on price per acre or per man-hour—is one wrong answer for two problems: The gradual concentration of farm enterprises and the rural slum. It was outworn before it was ever used; it cannot be too soon to discard it now.

CHANGE IN CAPITAL GAINS TAX PROVISIONS VITALLY NEEDED... President Eisenhower, in his recent important statement on taxes, has initiated what may be the first step in a long-needed overhauling of the tax system. In consequence, it is hoped that Congress will be able to bring the essential bills up for passage. Among the most urgently needed is a radical change in the burdensome capital gains provisions. As we have pointed out many times, these provisions tend to restrict stock investments and to stifle the employment of venture capital. How this has worked out to the detriment of business is indicated by the fact that since the war, equity financing has amounted to a total of only $2 billion against some $70 odd billions in corporate bonds. This heavy increase in debt can be attributed, in part at least, to the capital gains tax. Inability to raise new capital through equity financing is caused by the reluctance of individuals to employ their savings in this manner. In 1952, for example, liquid savings of individuals increased by some $14.6 billions, yet investment in new corporate stock amounted to the barest fraction of this amount.

The six-months holding period for long-term capital gains is a deterrent to speculation as well as investment. This drawback affects new issues as well as those of older origin, as the incentive to purchase new issues is dampened by the restrictive character of the tax. It is obvious that the nation's industries cannot afford to issue bonds for financing indefinitely and that sooner or later they will be compelled to sell stock in order to provide for their future needs. If they continue to be hobbled through the unfortunate operation of the capital gains tax, industry is bound to suffer in the long run.

The capital gains is a product of the New Deal and was essentially a political move forced by the labor unions. It is an uneconomic tax. Even the Treasury profits little from it. It is doubtful if much more than one percent of the total Treasury tax receipts is obtained from this source, or about $700 million annually. Removal of this tax from the books would release billions in new equity investments and, in turn, provide a broader economic base on which taxes themselves must depend.

TOO SOON FOR ALARM... A labor union, holding its annual convention a week or so ago, reported an increase of assets during the year of $21 million to a total of $166 million. Then it passed a resolution denouncing the Eisenhower administration for an alleged plot against the working people. The New York State Council of the CIO has printed a million circulars warning against government "by Big Business for Big Business."

These objections to the sane fiscal policy of Secretary of the Treasury Humphrey are on the subrational level, as anyone knows who has seen corporate profits vanish in depressions. Much more disturbing is the evident fear among many persons who should know better that the anti-inflationary policy has already overshot its mark. There are even regrettable signs that inside the Administration the lesson of government's essential ineptiude in matters economic, which we bought at such a high price in the 'Thirties, has not been learned.

One bond issue, which did not so much set a higher interest rate as it recognized the higher going rate in the market, has frightened economists of high professional standing into assertions that the Treasury and the Federal Reserve Board must now co-operate to restore the money supply! More alarming, inspired stories come from Washington that a revitalized Council of Economic Advisers will study means of heading off a depression, to go into effect as soon as unemployment reaches 2.5 million persons.

The heading-off, apparently, is to be done in the early Roosevelt manner—easy money, tax cuts to the point of huge deliberate deficits, and public works. Those are the remedies we took from 1933 to 1939, and we still had 10 million unemployed in a smaller labor force, until rearmament came along.

It is worth remembering that the recession from which this country recovered most quickly and most thoroughly was that of 1920-21. President Harding, confronted with this phenomenon, sat still and hoped it would go away. It did. With it, of course, went the savings and the hopes of thousands of entrepreneurs who had spread themselves too widely on the basis of inflated valuations.

Better those personal tragedies than the tragedy the election of 1952 was supposed to save us from—a constant, or nearly constant, inflation which must eventually destroy not only the will but the ability to divert income from consumption to increase productive capacity. That will and that ability have made this country the strongest in the world. It would be a mad bargain to throw them away for momentary popularity with the CIO.

INDUSTRALIZATION ON THE COAST... Concern is being expressed in some quarters over the outlook for some of the newer armament centers, particularly those on the Pacific Coast, after defense orders fall off. Some apprehension, on surface, would seem jusfied in view of the enor- (*Please turn to page* 365)

As I See It!

By E. D. KING

THE ADMINISTRATION—FOUR MONTHS AFTER

Though the Eisenhower Administration has been in office only a little over four months, adverse criticism is already commencing to rear its head. In our view, it hardly seems that this is justified. The exceedingly brief tenure of office has been too short to permit incoming officials to become acquainted even with administrative procedure, let alone establish the firm policies needed to undo the twenty years of faulty policies of the preceding administrations. To accomplish this end alone would take a great deal of time, much more than the Administration has thus far had at its disposal. And, of course, it has other and equally important problems to settle.

While the Administration should be absolved from blame for what seems, on surface, a slow performance, it is pertinent to level a few barbs at those who have contributed to the situation by placing roadblocks in the path of the President. The fact that these obstacles were created by important members of the President's own party has intensified his problems.

In a sense, however, the President's own philosophy of government has helped bring about the current confusion. The President believes in a co-ordinate system of government, that is one in which the Chief Executive and the Congress share the responsibility. This theory, of course, is precisely opposite to the one prevailing under the Roosevelt and Truman administrations. The President's well-meant view, however, does not take into consideration the historic fact that if the Executive does not assume full leadership, Congress will attempt to fill the vacuum.

"HORATIUS GUARDS THE BRIDGE"

Dowling in the N. Y. Herald-Tribune

It is therefore now necessary for President Eisenhowever to abandon his earlier concept of the distributions of governmental power and to exercise his prerogatives firmly in order to bring his policies into being. These policies were clearly indicated in his State of the Union and budget messages, and in other recommendations and statements. In two respects, especially, has he met resistance from Republican members of the House and Senate, — spending and taxes. The President wants to make every effort to balance the budget and to help accomplish this important result has advocated, among other measures, that certain taxes be retained, especially the excess profits tax. This is being fought tooth and nail by Republican members of the House and Ways Committee. His proposal to cut funds for the airforce by several billions is likewise being met with determined opposition by a bipartison group in both House and Senate. There are other areas where the President and Congress have collided, for example, tariffs.

Both views cannot prevail. Either the President must have his way on major policies or the recalcitrant members of his own party will have their way.

The situation, in effect, is that the President has been served notice that the days of the "honeymoon" are over and that he must now settle down to the grim task of beating down opposition to his program wherever he finds it.

As a matter of fact, he should not find this too difficult. Aside from his (*Please turn to page* 366)

Favorable and Unfavorable Factors In Market Outlook

A fairly sharp decline over the last fortnight took the Dow industrial and utility averages to new 1953 lows, rails close to their April reaction low, before better support was met near the week end. Business activity remains high, but investors are focusing on uncertainties in the forward vista. Continue to hold conservative reserves.

By A. T. MILLER

The stock market was under pressure during most of the last fortnight, resulting at last week's closing lows in net declines for the period of more than 10 points for the Dow industrial average, nearly 6 points for the rail average and roughly 1½ points for utilities. There was a small rally near the week end. As indicated by continuing moderate trading volume, there was no great amount of liquidation. However, with demand for stocks more restricted than in some time, it does not take much selling to unsettle the list.

The industrial average was carried about 3 points under its April low to a new low for the year, thus extending the zig-zag downward pattern from the bull-market high recorded about five months ago in early January. The rail average has so far held nearly 1 point above its April low. A straw of hope can be read into the latter fact by those who still attach some trend significance to confirmation of the course of either of these two averages by the other. However, relatively few investors today pay much attention to technical indications one way or the other. They are more inclined to stress what they believe the fundamental factors are in concluding whether stocks are attractive or unattractive at given price levels. That is why upside or downside "penetrations" in recent years have so often proved to be meaningless.

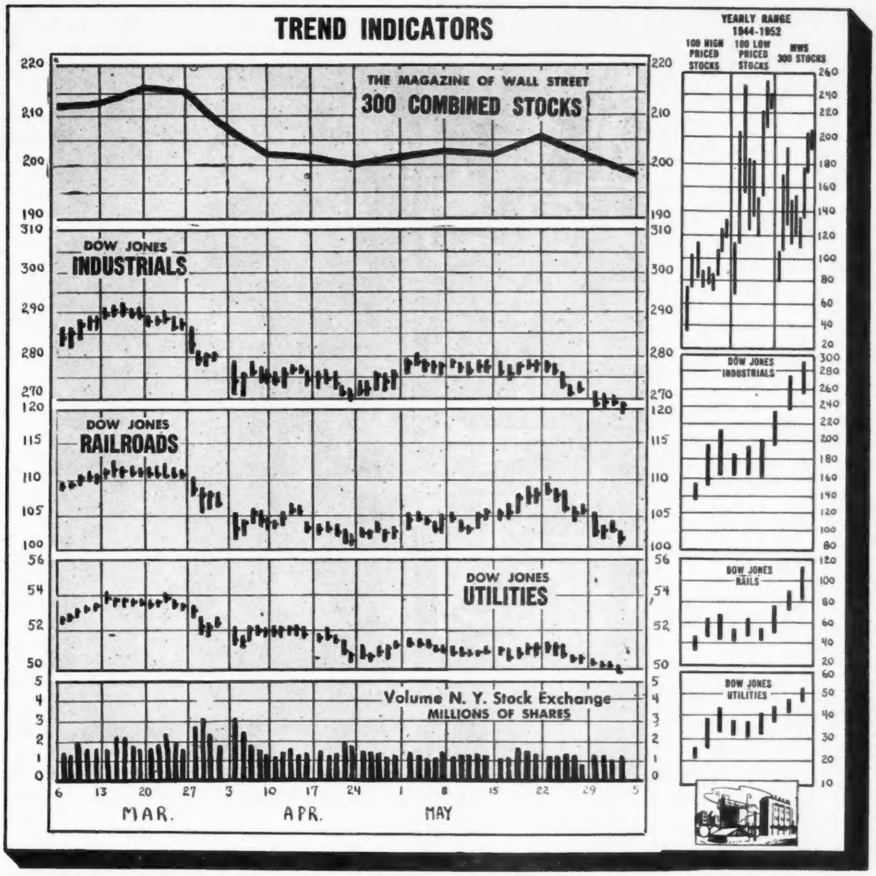
The Sag In Utilities

Although the week-to-week movement of utilities is sluggish, they have nevertheless given up all of their post-election rise, sagging to the lowest level since last October. This is a direct reflection of the major rise in bond yields, and especially those of tax-exempt municipals, which reduces the relative attraction of utility dividend yields, despite the fact that earnings and dividends are trending moderately upward and will make a comparatively better full-year showing than those in the industrial list.

When investors feel uncertain they are more inclined to do nothing, or to lighten stock positions more or less, than to buy. Uncertainty is the over-all reason why the market has been unable to extend its major trend since around the turn of the year, why it has declined from the March recovery high, and why it has recently weakened further. There are three chief areas of uncertainty in investment psychology at present. They are: (1) business prospects beyond the relatively near term; (2) whether the rise in interest rates has about run its course or will go appreciably further; and (3) the effects of an agreement on a Korean truce, ex-

pected shortly as this is written.

The last is the least important because, after protracted negotiations, no element of surprise is left; and because the world picture cannot be fundamentally changed by a mere Korean armistice. Despite the wishful thinking of some of our allies, the Administration has no illusions about the Communist threat. It is unlikely to pare requested defense appropriations more than had already been planned. Defense spending in the next fiscal year, partly out of the huge sums previously appropriated or authorized, probably will differ not greatly from that in the year ending June 30.



Whether long-term money rates, already back to the highest level since before the start of World War II, will go appreciably higher before they ease, and when the reversal might start, are unpredictable. Despite some recent contraction in bank commercial loans, over-all demand for credit shows little or no abatement. Consumer credit is still expanding. Demand for mortgage credit, if past its peak, is still high. Corporate financing so far remains around peak levels. Municipal credit demands are heavy and not likely to become less so any time soon. Finally, there is ahead a heavy schedule of Treasury refunding operations and of new-money financing to cover relatively large deficit spending.

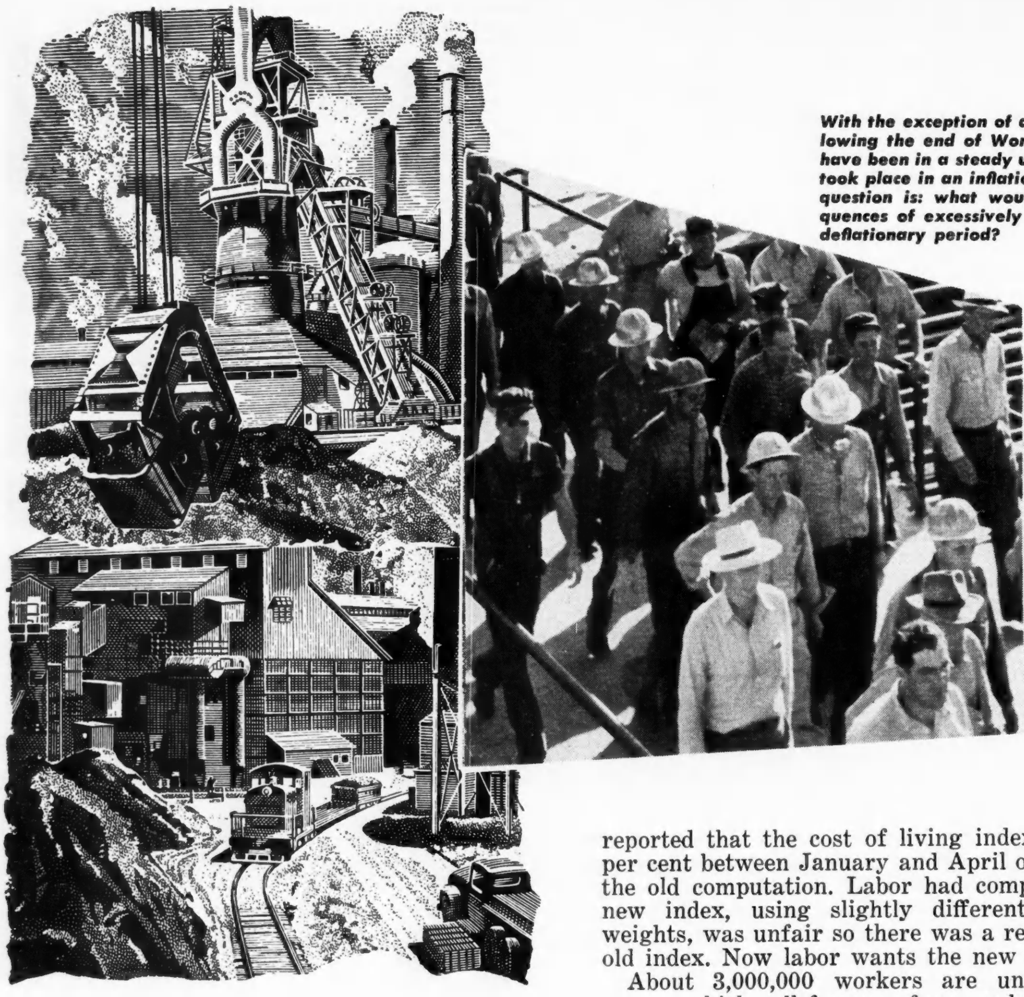
All of this suggests a continuing tight, if not still tighter, money situation unless business activity contracts rather sharply in no great time, reducing private credit demand; or unless the Federal Reserve, easing or reversing its anti-inflation policy, pours considerable money—much more than it has recently been doing—into the banking system via open-market purchases of Government obligations. It may be forced into the latter direction since, without a rather wide contraction in non-Federal credit demands, it is inconceivable that heavy Treasury financing can be handled at present market rates or at other than materially higher rates. Yet it remains to be seen how soon and how far the Reserve will go in changing its hard-money policy. It would, of course, be changed almost automatically by the definite start of the long heralded slump in business activity.

Doubtful Business Prospect Most Important

Without minimizing the investment importance of the money-rate factor, it is nevertheless considerably less important to the stock market than are present doubts about the continuation of the business boom. Demand for common stocks hinges more on hopes for capital gain than on income return and the relation of the latter to bond yields. Although the yield spread has narrowed greatly, representative industrial stocks still yield around 75% more income than do high-grade corporate bonds. At times of high (and mistaken) confidence in business prospects and market potentials, stocks have yielded less than bonds or little more. That was so in much of 1928-1929 and in portions of 1936-1937. At the 1946 bull-market high, stocks yielded only about 35% more than bonds. The present spread is now nearly twice as favorable to stocks as the latter. Only a few weeks ago, the spread was much narrower.

What is mostly lacking, then, is confidence in continuing high business activity, in future corporate earnings and in common-stock profit potentials. Whether this feeling of uncertainty and caution will prove better founded than in the several previous instances since the end of World War II, when investors turned dubious about business prospects, remains to be seen. It will not be statistically clear for some time whether business activity reached its cyclical crest some time this spring. The Reserve Board production index recorded a peacetime high of 243 in March. The preliminary April figure was 242 and the official estimate for May is 242. Change so far is insignificant; and that will probably be so through June. No general downturn is yet shown by available weekly indicators, such as steel operations, paperboard production, electric power production, car loadings and department store sales.

Factory vacation shut- (*Please turn to page* 368)



With the exception of a brief period following the end of World War II, wages have been in a steady upward climb. This took place in an inflationary setting. The question is: what would be the consequences of excessively high wages in a deflationary period?

A Time of Decision for LABOR

By WARNER T. WILSON

It would be idle to deny that the American economy now faces one of the most crucial periods of recent times. Yet, at the beginning of the Eisenhower Administration and obviously acting upon the theory that the best defense is offensive movement, labor leaders announced a new round of wage increases would be sought. They based this in part on the removal of price controls. It was asserted that prices would immediately rise and higher wages would be necessary to meet the increased cost of living to the worker.

The fact that prices did not rise (save for a very few items) did not deter labor from its new campaign. The Bureau of Labor Statistics has just reported that the cost of living index dropped 1.1 per cent between January and April on the basis of the old computation. Labor had complained that a new index, using slightly different figures and weights, was unfair so there was a reversion to the old index. Now labor wants the new index.

About 3,000,000 workers are under contracts which call for use of an escalator clause the effect of which is to re-adjust hourly wage rates in consonance with the rise or fall of the index. Despite this clause, General Motors and Ford recently have been induced to grant concessions which practically mean that when the index rises, wages rise but no wage reductions are to follow index declines.

The battle cry which gained so much strength during the long Roosevelt-Truman regime that labor's gains must be protected arms labor leaders with a determination to continue demands for wage increases and for pensions and other fringe benefits, to say nothing of tassels. So it is indeed idle for management to expect any other attitude.

The large labor organizations employ some of the most competent economists and public relations representatives they can attract and invariably they present sound-seeming approaches. This time, it appears, the emphasis is to be laid upon productivity and the issue presented is that labor is not receiving its fair share of the enormous output of American industry so much of which is due to the skills and energy of the workers.

But only so much! Despite all the manipulations which have been made over the years by both major parties to the American industrial picture, the shares of each have varied scarcely at all in terms

of total national product. Nor has unionization made any appreciable difference in that portion of the total output allotted to each. There seems to be a law almost as immutable as the law of the tides and of solar movements!

Even a century ago the rule was much the same. However, incontrovertible figures are better available for a more recent period. Using official figures of the United States Government, it is shown that in 1909 when only nine per cent of factory workers belonged to labor unions, wages amounted to 39.2 per cent of the value added by manufacture; that is, labor's share. In 1923 eleven per cent of the workers were unionized. Their share rose to 41.3 per cent. In 1947 the unions claimed sixty per cent of the workers to be unionized but in that year labor's share dropped back to 40.7 per cent.

It is true that more dollars go into labor's pocket and, because of the miraculous increase in volume and variety of products, more things, more useful objects have been acquired by the workers, but the proportionate share has scarcely altered at all. And, of course, there has been a long rise in the cost of living; a decline in the purchasing power of the dollar. So in one sense, while the worker has more dollars it is stage money!

Established Balance Threatened

Now the danger in the immediate situation is that labor has undertaken to exert every possible effort to upset this long established balance, this time-tested division of the national product. The menace of strikes to enforce labor's will broods in the background. And, with the cry that labor's gains must be protected at all costs, a fresh assault has been prepared.

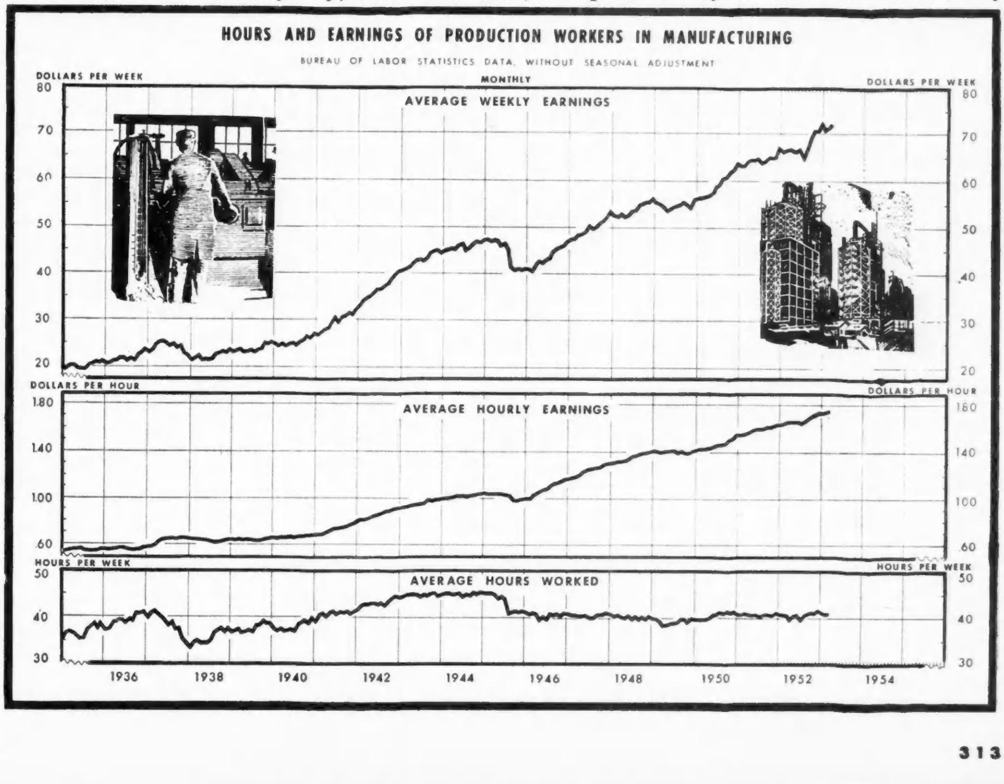
The question arises as to whether this nice balance can be essentially disturbed without dire effects upon the entire economy, upon a numerous group of gainful workers, indeed the majority, who are not unionized at all! Both great labor organizations, the American Federation of Labor and the Congress of Industrial Organizations, have launched vigorous campaigns for new members and with a dual purpose. The more fundamental purpose, probably, is to strengthen the threat against management to enforce another round of wage increases; a secondary purpose is the enhancement of each group in negotiations for labor unity. The Federation claims ten million, about double what the CIO has but the CIO is, perhaps, the more militant and articulate group.

For the steel industry, the bell-wether of all American industry, a new round would be the eighth but the previous increases had been granted in an inflationary period, stimulated by war-risen prices and allied factors. With the Federal Reserve Banks once more using the bank rate as it was designed to be used to control credit and with interest rates hardening in all categories, the trend is deflationary, a trend which sounder economists have been yearning for as the only reliable defense against a stampede down the declivity of outright printing-press money.

The labor leaders and their economists have chosen an alluring argument as their chief lever to lift wage rates—the argument of productivity. But a careful scrutiny of all the elements suggests irresistibly that they lean too hard on the assumption that the miraculous increase in output has been due almost solely to the workers. The suggestion lurks in use of the argument that labor puts forth far greater exertion than aforetime, indeed that the worker has been exploited as never before to bring about the vast pouring out of consumable goods.

A Fallacy in Labor Reasoning

This picturesque argument leaves almost wholly out of consideration the part management has played in placing in the hands of labor tools of tremendous value and of ever-increasing ingenuity. There is no disposition on the part of management to belittle the skills and energies of the workers but the fact remains glaringly urgent that, without the tools furnished by management, there would have been no increase in over-all productivity; indeed, because of pressures for shorter hours, because of such practices as feather-bedding and the like, it is probably true that, given a completely static situation as to the tools, the productivity of labor would actually



show a decline!

Because of the great diversity of American industry, there is the widest conceivable variation in ratios of the share management has contributed toward productivity and that which labor has given. In some light industries management's share may be but a few hundred dollars per worker; in more instances management's contribution per worker runs into the thousands. And, of course, while the worker is off duty for an increasing number of hours, while he is on paid vacations or otherwise not producing, the tools, the machinery, the plant itself contributed by management are undergoing depreciation, every dollar of which must be met by management and not one cent by labor! Moreover, management must pay property taxes on these very tools which have made increased productivity possible.

Nearly everyone is familiar with the dramatic early examples of increased productivity arising from technological advances, even of the simplest kind—how, for example, the reaper and binder did the work of from twelve to twenty scythe-men and gleaners. The advance of the machine age brought ever more complicated comparison. It is stated that between 1914 and 1947 the manufacturing industry expanded real output by 276 per cent. It is calculated that unit costs in wage terms declined 61 per cent. Certainly in some fields the decline was greater than 61 per cent and on this labor now bases its plea for a greater share of the total product.

There is a fallacy in this. Although in terms of unit cost, the labor wage declined 61 per cent, at the same time in terms of money, labor steadily received more dollars and its due proportionate share of the increased production. In one sense it could be argued that labor received more than its proportionate share because of the tax situation. It is true that labor pays income taxes but, in recent years, management has had to pay in addition to normal income taxes, all manner of other taxes—excess profits, manufacturers' taxes and, of course, local State, county and municipal real estate and other imposts on those very tools which made the production possible.

For all manufacturing, according to the Bureau of the Census, the productivity index figure, based on 100 for 1939 rose from 78.1 in only ten years. The figure has not been projected by the Census beyond 1939 for all manufacturing but it has for selected industries. In steam railroad operation revenue traffic rose from 75.1 in 1929 to 149.9 in 1950. For the electric light and power industry the figures are 54.1 for 1929 and 171 for 1948 on a basis of output per man-hour. In smelting and refining of copper, lead and zinc on a basis of output per man hour the index figure stood at 89.5 in 1929 and rose to 105.7 in 1950.

A Warning Signal

While American labor representatives are employing the idea of increased production as a reason for increasing wages, perhaps cooler calculators overseas have waved an inconspicuous but conceivably very important warning signal. A committee of the International Labor Organization at Geneva, composed of members representing in themselves thirteen countries but, in their studies, the entire free world of labor has been making an intensive study of labor productivity. In a report this committee finds that "the benefits of higher productivity should be equitably distributed among capital, labor and consumer." But the committee goes on to say "that the demand for goods and services should be maintained at a sufficiently high level and adequate measures should be taken to *prevent higher productivity from leading to unemployment.*"

Not only do the members of this international committee see that labor might overdo the production motif (especialy when coupled with wage demands) but they also recognize that labor's gains depend upon the furnishing of tools, of plant, of enterprise on the part of management. The committee finds that "special attention needs to be devoted to the problem of ensuring an adequate rate of capital formation."

Unquestionably, the productivity issue is now brought up with so much emphasis as a countermeasure to the operation of the escalator clause. On a rising economy, that clause seemed very well indeed to the labor negotiators but it never was intended to work in reverse. The intention now patently is to throw out of alignment that time-tested division of shares of the national product to which reference has been made. So it is that new contracts include what has been euphemistically named an "improvement factor" or "productivity wage adjustment." The sole purpose of this is to prevent the escalator from working both ways.

Can anyone fail to wonder how long such an artificial arrangement can last? It is ill-doing to attempt to alter natural laws. The Bureau of Labor Statistic's Wholesale Price Index declined 6 per cent from February 1951 to 1953. It still is declining. And the items which show the greatest decline are those of first importance to labor. Farm products declined 16.4 per cent and processed foods declined 6.9 per cent. Textile products declined 14.9 per cent and hides and leather products declined 23.2 per cent.

Capital or management did not share in these advantages although plant must be maintained if employment is to continue. Fuel, power and light increased less than 1 per cent, metal and metal products increased very slightly; machinery increased 3.2 per cent and construction machinery, 2.6 per cent. Finished steel increased in price 4.9 per cent. So while labor was enjoying a broad price decline, management was paying more for its tools!

It would be folly to suppose that, in the American type of economy, wages and prices can diverge indefinitely. If labor unions wish to muster their strength and through threats of strikes resist all efforts to adjust wages to prices and even insist (as they now are doing) on yet further increases, there can be but one outcome. That is mounting unemployment. It is true that wages have long been artificially lifted by the defense program and by the exigencies of war. It is further true that every possible effort would be made to adjust the economy to continue large production on civilian account to take the place of defense orders. But that substitution would have to be made on a basis more nearly in concord with natural economic laws.

Labor's Demands and Small Business

Of profound importance in the existing situation is that a maladjustment between wages and prices will not harm great integrated companies so much as the smaller, marginal manufacturers. The huge industries—steel, automo- (*Please turn to page* 364)

EMPLOYMENT COSTS OF IMPORTANT COMPANIES COMPARED

The accompanying table presents important data on a) the relationship between employment costs and sales and b) the relationship between employment costs and operating profits (before taxes and fixed charges). These ratios are given in the third and fifth columns of the table, respectively. The ratio between employment costs and sales is expressed in terms of percent; and the ratio of employment costs to operating profits is indicated by the quotient of the two sums. With reference to Standard Oil of New Jersey, for example, the ratio is 0.8 of operating profit to 1 of employment costs; in the case of U. S. Steel employment costs are 5.1 times operating profits.

The table is divided into two sections, the first listing large-sized and dominant companies in their fields with annual sales running $400 million and above; the second listing companies of smaller size and, therefore, with smaller sales, but still quite representative of their respective industries.

It will be noted that the ratio of employment costs to sales, regardless of industry, may be at great variance with the ratio of employment costs to operating profits. Thus, in the case of the oils, Standard Oil of New Jersey, Standard Oil of California and Socony-Vacuum have approximately the same ratio of employment costs to sales but the ratio of their employment costs to operating profits is markedly different. From the investment standpoint, this might be significant as indicating (please see table) that Standard Oil of New Jersey possesses an advantage as to the wage factor. Furthermore, it would tend to indicate that while the wage factor is relatively small for the oil industry as compared with others, the degree of susceptibility to a future wage increase is likely to vary as between the individual companies in this industry.

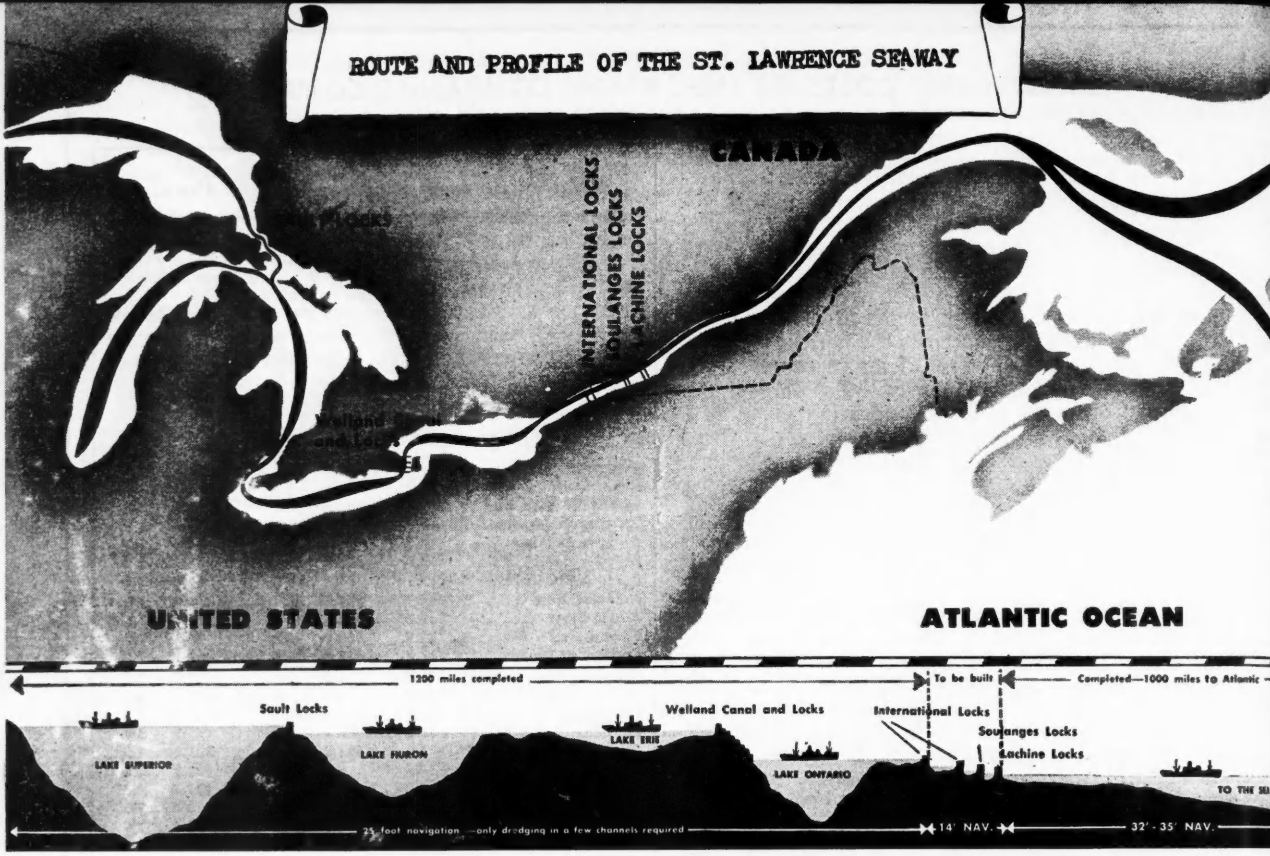
The steel group also offers an interesting basis of comparison. It will be seen that of the four steel companies listed, National Steel and Armco possess an advantage over Bethlehem and U. S. Steel in respect to both the ratio of employment costs to sales and the ratio of employment costs to operating profits. An increase in wages, apparently would have a greater impact on the last two companies than on the first two. By the same token, the situation would be reversed with a decrease in wages.

The reader might find it interesting to make further comparisons as between individual companies in the same industry and as between the industries themselves. In view of the present potentials for higher wages in the major industries—General Motors having already concluded its negotiations with the CIO Automobile Union, and U. S. Steel probably shortly to follow with its own agreement on wages with the Steel union —we believe this table has extraordinary and timely interest. Great pains were taken to afford as wide a cross-section of American corporations as possible, in addition to providing original statistical data of unusual value.

Relation Between Wages, Sales and Profits

	1952 Direct Employment Costs (Millions)	1952 Net Sales (Millions)	% of Employment Costs to Net Sales	1952 Operating Profit (Millions)	Ratio* of Employ't Costs to Op. Profit
LARGEST REPRESENTATIVES OF VARIOUS INDUSTRIES					
Standard Oil of N. J.	$ 670.2	$4,050.8	16.5%	$ 796.1	.8
Dow Chemical	103.6	407.1	25.4	110.6	.9
International Paper	140.7	631.4	22.3	143.6	.9
Standard Oil of Calif.	171.7	1,015.3	16.9	145.3	1.2
General Motors	2,135.0	7,549.1	28.2	1,553.8	1.4
Allied Chem. & Dye	121.6	490.1	24.8	76.1	1.6
Socony-Vacuum Oil	262.1	1,560.5	16.7	165.7	1.6
Schenley Industries	46.0	426.4	10.7	26.6	1.7
Atlantic Refining	96.1	602.8	15.9	55.3	1.7
Chrysler Corp.	498.7	2,600.9	19.1	263.6	1.8
Deere & Co.	117.1	383.1	30.5	65.4	1.8
National Steel	141.9	548.6	25.8	78.4	1.8
Armco Steel	142.3	518.5	27.4	72.1	1.9
Pittsburgh Pl. Glass	139.8	402.0	34.7	75.2	1.9
Caterpillar Tractor	137.7	477.5	28.8	68.7	2.0
Allis-Chalmers	147.3	513.6	28.6	65.9	2.2
Alum. Co. of America	230.2	577.7	40.0	102.5	2.2
Eastman Kodak	266.0	550.4	48.3	117.4	2.2
Firestone Tire & Rub.	233.2	965.3	24.1	95.1	2.4
General Electric	975.0	2,623.8	37.1	387.3	2.5
General Mills	57.5	468.8	12.2	22.3	2.5
Goodyr. Tire & Rub.	308.8	1,138.4	27.1	117.4	2.6
Nat. Dairy Products	190.4	1,141.3	16.7	70.8	2.6
U. S. Rubber	263.9	850.1	31.0	90.4	2.9
Westinghouse Electric	536.8	1,454.2	36.9	176.3	3.0
American Can	163.0	621.7	26.5	52.9	3.1
Sperry Corp.	169.1	396.2	42.6	51.2	3.3
Bendix Aviation	180.7	508.7	35.5	50.7	3.5
Radio Corp. of Amer.	243.3	693.9	35.1	67.2	3.6
International Harvstr.	399.8	1,204.0	33.2	105.3	3.7
Studebaker Corp.	115.6	585.3	19.9	29.4	3.9
Borden Co.	134.7	768.0	17.5	33.2	4.0
Bethlehem Steel	658.4	1,691.7	38.9	160.9	4.1
United Aircraft	221.9	667.7	33.2	51.0	4.3
Continental Can	127.9	476.8	26.8	26.7	4.8
U. S. Steel	1,322.0	3,137.4	42.1	258.0	5.1
Swift & Co.	296.4	2,592.6	11.4	43.0	6.9
Armour & Co.	258.8	2,184.0	11.8	21.0	12.3
SMALLER REPRESENTATIVES					
Minn. Mining & Mfg.	$ 55.7	$ 185.2	30.0%	$ 40.2	1.3
Lorillard (P.) Co.	18.3	214.5	8.5	13.4	1.3
Gair (Robt.) Co.	32.8	107.5	30.6	19.3	1.6
Fansteel Metallurgical	8.0	23.1	35.0	4.6	1.7
Bridgeport Brass	24.7	126.7	11.6	12.4	2.0
Sutherland Paper	15.0	49.8	30.1	6.6	2.2
McGraw Electric	34.9	104.8	33.3	14.7	2.3
Elliott Co.	19.7	45.3	43.5	8.2	2.4
Penn. Salt Mfg.	15.2	57.4	27.0	6.2	2.4
Acme Steel	17.1	58.0	29.6	6.5	2.6
Pittsburgh Cons. Coal	65.1	184.8	35.2	22.1	2.9
Armstrong Cork	63.3	202.3	31.3	19.9	3.1
Mack Trucks	47.7	170.5	28.0	1.5	3.1
Dresser Industries	34.4	127.3	27.1	10.6	3.2
Amer. Brake Shoe	39.0	135.3	28.8	11.3	3.4
Thompson Products	103.5	274.0	37.7	30.4	3.4
Atlas Powder	16.8	52.9	31.8	4.6	3.6
Motor Wheel	19.3	68.8	28.1	5.3	3.6
Sylvania Electric	93.1	235.0	39.6	18.8	4.9
Gen. Tire & Rubber	52.8	185.9	28.4	10.6	5.0
International Shoe	92.0	217.3	42.3	17.6	5.2
Sharon Steel	40.4	131.3	30.8	7.2	5.6
Underwood Corp.	42.8	65.8	65.1	3.3	12.8

*—Arranged in order of ratio of employment costs to operating profit.



Dynamic Business Impact of...

St. Lawrence Seaway

By J. T. RUSSELL

For more than a generation, the St. Lawrence Seaway project which would link the Great Lakes with the Atlantic Ocean, has been stymied through opposition from within this country. Its history is a study of futility which had its start in the eighteen-seventies when the proposal was first broached in Congress. Over the years its U. S. legislative record has been anywhere from dormant to white hot, only to die in the pigeon hole of a Congressional committee.

During these years in which the project has been more or less "kicked about" in our Congress, Canada, a working partner in the project has, with seeming patience—perhaps coupled with a lack of funds—let the proposal sort of remain in abeyance. However, in the past year our sister nation to the North has come out of her shell of reticence and said in effect, and with apparent finality:

"Very well, if the United States will not participate in this needed undertaking we will go it alone, do the job ourselves and reap the major benefits therefrom."

This attitude of Canada has at least spurred one segment of our Congress to action. The Senate Foreign Relations Committee, in record time, has held extensive hearings on a measure by its own Chairman, Senator Alexander Wiley, Wisconsin Republican, who has asserted the United States *will* participate in the undertaking. However, it must be borne in mind that Wiley's declaration may spring from his own desires in the matter rather than from any sure knowledge of the way his Senate colleagues will vote, or how his measure, if passed by the Senate, may fare in the House of Representatives.

Meanwhile, an identical measure by Representative George A. Dondero (R., Mich.), chairman of the House Public Works Committee, has been gathering dust in the committee's files since early this year. He recently tried to get the committee to consider his bill prior to Senate final action on the Wiley measure, but was voted down by committee colleagues, losing by a reported margin of three. So much for the Congressional history of the Seaway project. Let us now look at the Wiley-Dondero bills and what they propose.

What the Measures Propose

The two measures are concerned solely with the

construction of navigation facilities at the International Rapids on the American shore of the St. Lawrence River and the dredging of the Thousand Islands channel. They do not undertake to construct any electric power generating plants nor do they provide for the deepening of the connecting channels between the Great Lakes.

Various bills of previous years have included hydroelectric installations to be largely if not entirely financed by the United States Government. The Wiley-Dondero measures presuppose the electric installations to be built by the Power Authority of the State of New York in cooperation with the Province of Ontario, or by some agency other than our own Federal Government.

In order to accomplish the navigational work, the Wiley-Dondero bills would create a Government Corporation, to operate on a self-liquidating basis and would give the corporation a borrowing authority of $100 million by the issuance of bonds of not over 50-year maturities. The Treasury Department has registered opposition to a corporation with the Federal Government guaranteeing principal and interest, stating that the Trseaury should directly purchase and hold the corporation's bonds.

The corporation would have three primary objectives (1) construct the navigation facilities, (2) negotiate an agreement with Canadian authorities as to toll rates, division of revenues and joint operation of the Seaway, and (3) upon receiving the President's approval of the negotiated agreement, operate the Seaway jointly with Canada, in accordance with the agreement.

Since there arises the possibility that the American Congress will not "go along" with Canada in the project, it is in order to try to forecast the economic results of such refusal and to try to appraise the project, try to determine if it is really needed, what industries will gain by its construction and what industries may be hurt should it become a reality.

The accompanying table reveals that Canada's current proposal, already authorized by appropriate legislation to create a corporation with borrowing authority of $300 million calls for Canadian-U. S. expenditures totaling from $282,750,800 to $286,038,600, depending upon interest rates which may be necessary to financing. It is also to be noted that Canada proposes to pick up two-thirds of the tab. Presumably, this would mean that she would be the controlling voice in tolls, management and other matters affecting operation of the seaway. It is not conceivable that we of the United States would want to enter into the project without equal controlling voice. For this reason, if we do enter into agreement to go ahead with joint development, it can be assumed that we will put up more than is now proposed.

In the event that we do not join with Canada in construction of the project, then it follows—as the night the day—that we would have absolutely no voice in tolls, operation or management. This could work to the detriment of this country and to the advantage of Canada, provided of course, the Seaway will have and produce the traffic its proponents claim.

Coming to traffic potentials, we find ourselves faced with a problem that may defy analysis. Exhaustive review of Congressional hearings and other data available reveal a welter of conflicting claims that are worse than confusing, leaving the practical analyst in the midst of a sea of uncertainty. Proponents of the Seaway have, over the years, shifted from one supporting reason to another, often making seemingly extravagant claims for its benefits, while opponents have countered with arguments, real or fancied, that are hard to evaluate.

In the early years, proponents pointed to the great advantages to be derived by the farmers of the Western part of the United States as well as the timber areas there. Low transportation rates on grain and lumber for export was the big argument of the "pros." With the coming of World War II and sharp curtailment of trade with Europe, transportation of grain and timber moved to the background. In the post-war years, grain remained in the background for the reason that most of our grain exports were on a relief basis with Uncle Sam buying the grain virtually at the farm, thus relieving the growers of any concern over freight rates to Europe, while the overseas Nations, without funds for building, faded as potential customers for the timber and lumbering interests.

Labrador Iron and the Seaway

During this period, the rail carriers of America, principally through the Association of American Railroads, fought the project as unnecessary, too slow a method of transportation, and a possible threat to the railroad industry with its billions of invested capital.

However, the disappearance of grain and timber from the picture did not leave the proponents without seeming valid arguments in support of the Seaway. World War II, with its heavy demand for steel, cut deeply into the iron ore reserves of the Great Lakes region, and at the same time rich iron fields were found in Labrador. The Seaway supporters then, and with considerable reason on their side, shifted to the crying need in the United States for Labrador ores. The eastern terminus of the Seaway would lie less than 200 miles from these fields, and the Seaway, with proper rail connections with the iron fields, would be the ideal and economical "transmission belt" from Labrador mines to American smelters.

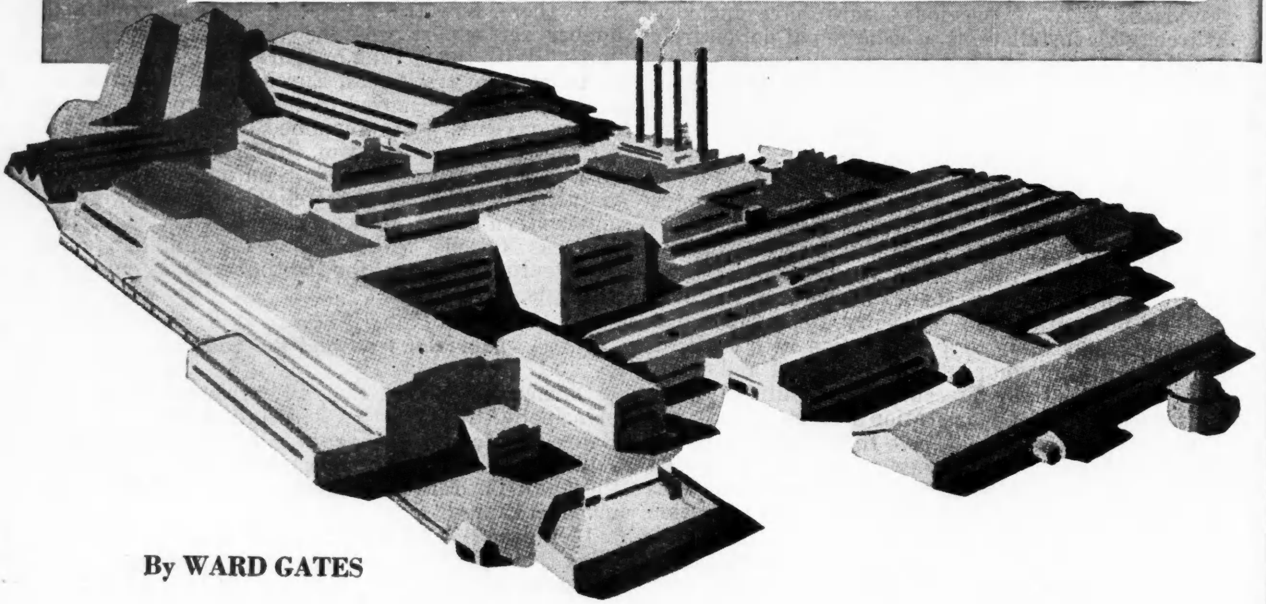
This last argument — Labrador ores for United States mills has won considerable support from large segments of our steel industry as well as those in Government concerned with steel for defense. Seven American steel com- (*Please turn to page* 361)

Financing St. Lawrence Seaway

	Cost upon completion at interest rates of 3%	3¼%	3½%
U. S.			
Original Cost	$ 88,074,000	$ 88,074,000	$ 88,074,000
Interest during Const.	6,605,550	7,156,012	7,706,475
Total U. S.	$ 94,679,550	$ 95,230,012	$ 95,780,475
Canada			
Original Cost	$174,950,000	$174,950,000	$174,950,000
Interest during Const.	13,121,250	14,214,687	15,308,125
Total Canada	$188,071,250	$189,164,687	$190,258,125
Total for both countries			
Original Cost	$263,024,000	$263,024,000	$263,024,000
Interest during Const.	19,726,800	21,370,699	23,014,600
Grand Total	$282,750,800	$284,394,699	$286,038,600

Note: Estimated U. S.-Canadian cost of Constructing the St. Lawrence Seaway as provided in the Wiley and Dondero Bills at interest rates from 3% to 3½%, including interest during construction.

. . . Solving A . . .
STOCK MARKET MYSTERY



By WARD GATES

Investors are often baffled by a seemingly unfathomable market conundrum. This may be posed as follows: why do stocks with the same earnings sell at different prices? Or to put it another way, why does the market place one set of values on earnings in one case ond another set of values in another case, when earnings in both cases are practically identical? Here is a typical example: stock "A" earns $3 a share and sells at 25 and stock "B" earns the same and yet sells twice as high, at 50. The fact that both may represent the same industry apparently makes no difference. The same discrepancy also frequently appears in stocks of similar earning power but representing different industries. Like other seeming "mysteries" in the stock market, there is a solution but this is based on a working knowledge of the main factors on which stock market values depend.

It will clarify matters, at the outset, if it is recognized that the price of an individual stock is influenced to a substantial degree by the investment valuation of the group to which it belongs. This can be determined, as we have indicated in the table "Market valuations of leading groups", by taking an average sampling of a representative number of stocks in the group. This comparative valuation is expressed in terms of the price-earnings ratio. Thus, the average net per share in 1952 of the aircraft group—20 issues—was $3.57 and the average recent price, 20. This accordingly gives an average price-earnings ratio of 5.6.

How the Groups Compare

It will be seen that this average price-earnings ratio varies quite widely in the 12 important groups we have tabulated, ranging from 5.6 in the aircrafts and railroads to 15.3 in the chemicals. In other words, a dollar per share of chemical earnings is valued at the equivalent of 2¾ times either aircraft or railroad earnings. Next to the chemical group, highest values are placed on the utilities. These stocks, on average, sell at 12.5 times earnings. Fairly low down on the list are the steels and autos, with building and oils occupying a middle position. For further information on how the leading groups compare in market values, the table should be consulted.

The variations in valuations accorded to the stock market prices of these groups have not come about through accident. They represent the fundamental attitude of great masses of investors, institutional and private, domestic and international and have the most serious application to stock prices. They are not governed by temporary conditions. These attitudes, of course, are based on highly important tangible considerations and reflect a fundamental appraisal of the basic factors affecting the groups leading to a realistic estimate of their potentials for the long-term.

What are these considerations? Unfortunately, space does not permit a detailed description of the primary and secondary factors in play. However, a general statement may be of value in directing the attention of the reader to the essentials.

At first, it should be realized that the price-earnings ratio between the various groups has been established for years and does not change unless there is a fundamental change in the industry itself. In other words, market values of groups, as related to each other broadly speaking, will remain more or less constant, whether in rising or declining markets. This will be more true of a five or ten-year period than a twenty or thirty-year period as

any truly revolutionary changes are more likely to develop in individual industries over a longer than a shorter period.

The railroads offer a very good example. Before the first World War and even in the nineteen twenties, it cost $10 or more to buy one dollar of railroad earnings. To-day, it costs only $5.60 to buy a dollar of earnings. A few years ago, it cost even less.

Why is it that railroad earnings are valued so much less than they were a generation or more ago? The answer is that the industry a long time ago reached its maturity and that, in a general way, its outlook for continued growth is not considered as good as for some of the newer industries. In terms of transportation, it is manifest that its growth has been limited by its relatively newer competitors, particularly airlines and highway transportation. This does not by any means indicate that individual railroad stocks may not have appeal but rather that their earnings are likely to continue to be valued at lower levels, in comparison with some other more dynamic groups.

Growth Factor Dominant in Stock Prices

The chemical group offers an interesting example of the high value attached to the growth factor. It takes $15.30 to buy a dollar of average chemical earnings. This is much greater than other groups, with the relative exception of the utilities.

One does not have to be an expert in this industry to appreciate the enormous vistas opened up by its research in and development of many products derived from organic and inorganic chemicals. Among the most noteworthy have been petroleum derivatives, alcohol, plastics, synthetic fibres, raw materials for anti-biotic drugs, with a number of associated industries entirely revolutionized by these developments. The market has placed a very high value on the potentialities created by this dynamism and this process is not likely to be interrupted until the industry reaches a far greater state of maturity than the present. Therefore, the high valuation placed on chemical earnings is understandable.

These two contrasting examples—railroads and chemicals—are offered as two extremes in stock market values as related to growth factors or lack of them. There are, of course, many other basic considerations such as that some industries, steel, for example, sell at marked discounts from book values because extremely heavy capital plants investments do not permit a large margin of profit and since this is a fundamental drawback, the size of book value plays a very small part in the final stock evaluation. Fundamental characteristic such as this, therefore, have a powerful influence on the valuation placed on earnings by the market.

While there may be conspicuous variations in the valuations placed on earnings as between companies in the same industries, such as extremes are exceptional. We have grouped some of these in the table "Comparison of Market Valuations in Individual Stocks" for the purpose of illustrating the point. Of greater importance, however, is that within the group the majority of stocks tend to sell at approximately the same price-earnings ratio. The reason is that the fundamental considerations in evaluating the industry, as a whole, affect the majority of companies within the industry. This is a vital element in investment as any marked tendency to vary from this norm by an individual stock indicates exceptional developments with a strong bearing on the future price of the stock. This may be a favorable or an unfavorable development, according to circumstances, but the direction of the stock price trend is likely to be indicated by whether the price-earnings ratio is higher or lower than that for the average of the group. This point should be grasped by investors as a clue to inter-group stock movements.

Market Valuations On Leading Groups*

	Average Net Per Share for 1952	Average Market Price For Group	Average Price-Earnings Ratio
Aircrafts	$ 3.57	20	5.6
Airlines	2.03	15	7.3
Autos & Trucks	3.26	22	6.7
Building Supply	3.78	35	9.2
Chemicals	3.19	49	15.3
Drugs	2.02	23	11.3
Electronics & Television	3.61	29	8.0
Oils	5.72	57	9.9
Papers	4.21	36	8.5
Railroads	12.16	69	5.6
Steels	4.72	32	6.7
Utilities	2.31	29	12.5

*—Based on ratio between average earnings and market price of; 20 aircrafts; 11 airlines; 14 autos and trucks; 24 building supply Cos.: 29 chemicals: 16 drugs: 15 electronics & televisions: 31 oils: 19 papers: 12 railroads: 24 steels and 28 utilities.

Valuing Individual Stocks

Having discussed the basis of market valuation for the groups, we can (*Please turn to page* 359)

Comparison of Market Valuations on Individual Stocks*

	1952 Net Per Share	Recent Price	Price-Times Earnings Ratio	1952 Dividend
AIRCRAFTS				
Republic Aviation	$ 7.32	23	3.1	$ 1.25[2]
Douglas Aircraft	8.99	66	7.3	3.75
AUTOS & TRUCKS				
Reo Motors	6.03	23	3.8	2.00
General Motors	6.26	62	9.9	4.00
BUILDING SUPPLY				
Crane Co.	3.96	32	8.1	2.25
Pittsburgh Plate Glass	4.07	53	13.0	2.00
CHEMICALS				
Koppers Co.	4.29	34	7.9	2.50
Allied Chemical	4.55	70	15.4	3.00
DRUGS				
Lambert Co.	2.20	21	9.5	1.50
Abbott Laboratories	2.25	42	18.6	1.95
OILS				
Union Oil	5.07	39	7.6	2.00
Amerada Petroleum	5.04	169	33.5	3.00
PAPERS				
Champion Paper & Fibre	4.50[1]	29	6.4	1.50
Great Northern Paper	4.64	53	11.4	3.00
RAILROADS				
Illinois Central	15.50	79	5.1	3.50
Union Pacific	14.56	110	7.5	6.00
STEELS				
Pittsburgh Steel	3.25	19	5.8	[3]
Allegheny Ludlum	3.37	35	10.4	2.00[2]
UTILITIES				
Southern Calif. Edison	3.33	36	10.8	2.00
Cleveland Elec. Illum.	3.45	52	15.0	2.60

*—Two stocks from each industry selected on basis of approximately same earnings per share but with widely different stock market prices.
1—Estimated.
2—Plus stock.
3—Paid 8% in stock.

ROOM FOR TIGHTENING PURSE STRINGS

By "VERITAS"

SURPRISING was the house action laying a heavy whip on firms found guilty of violating the antitrust laws. The maximum fine had been $5,000; the house voted to jack it up to $50,000. Antitrust law violation usually is a debatable point when the proofs are weighed; decisions are not uniform on elemental points, many firms actually had no idea that in a competitive field they were doing acts which a court would hold to be violative of the federal statute. The house voted a similar bill in the last session (the senate ignored it), but re-affirmation still was a surprise.

ASSUMING congress really wants to balance the budget, cut taxes, there is an avenue which should be better known to the lawmakers than to any other citizens. It is not suggested that following the route would be wise; still a look-see might not be out of order. The last Truman budget added up to $72.9 billion. Even if one accepts the Eisenhower aspirations as accomplished facts, he'll still be about $2 billions in the red. But there has been appropriated, and still not expended, $135.3 billions. Surely in a fund so huge, there is room for some purse string pulling. Even if it hits defense outlays.

COMMERCE DEPARTMENT isn't concerned over the fact that mortgage and short-term indebtedness of individuals amounts to $82 billion, compared to $24 billion at the end of World War 2. The increase last year alone was $10 billion. These figures sound big, are big, Commerce admits; but, the agency adds, the amount does not exceed manageable proportions. Still, the rate of increase is in excess of the rate of liquidation—something that obviously cannot continue indefinitely without throwing the economy out of gear. But Commerce counts on sustained and improved income, increased production and payrolls.

INSTEAD of "cleaning up the mess" in Washington, democratic party politicos say the new regime is wading into situations which make it vulnerable. There is an extremely costly review in process to determine what, and where, crops subject to support prices are located. Inside the Department of Agriculture you'll be told that all the facts already are a matter of record and that nothing has been changed by the new research which has involved millions of dollars. In the Bureau of Internal Revenue there are smiles as the "economy program" is spelled out—more employees, and more costs, creation of new regional offices, added personnel.

WASHINGTON SEES:

President Eisenhower evidently is catching on to the fact that the fireside chats which FDR popularized and made political capital out of make up a good political technic. He is adopting the practice—he had a trial run in his speech to the country on taxes and finance generally. In the White House circle it's reported that Ike was pleased with the reaction. Press conferences and mimeographed statements serve an essential purpose for any White House incumbent. For the President to talk directly to his constituency polishes that relationship with an intimacy that evidently is appreciated. Again, President Roosevelt benefitted. So, he is advised, why shouldn't the General?

The people of the United States will be hearing from Ike with increasing regularity. He is a speaker of terrific convincing manner and those close to him have been urging that he take advantage of his natural talents, not necessarily to promote political stature, but to reassure a troubled nation. The President let it be known that he planned periodic messages, that he wants two-way communication with the people. He invites criticism, knowing that there are many who are aware of his expertness in one field and therefore look with hopefulness rather than conviction that he may have the essential versatility to cover others.

Also overlooked in some circles is the fact that Ike is the first non-professional politician to enter the White House in a century. The experiment should prove interesting.

As We Go To Press

Put bluntly, President Eisenhower isn't setting the world on fire. He's rounding out his fourth month in office. Thus far, he has failed to keep alive the enthusiasm which put him into office. Too much might have been expected of him; on the other hand he must have been politically naive to suppose that he would get unadulterated help from a congress led by his own party. Senator Robert Taft, not President Eisenhower, pulls the strings on Capitol Hill. They do not see eye-to-eye on major matters, especially in the field of foreign relations. Senator McCarthy is embarrassing him. And, of course, there are some democrats who are encouraging members of Ike's own party to greater and greater destructive effort.

There are governmental fundamentals at stake. President Eisenhower has set out to prove that men who showed themselves capable of private enterprise can run the nation's largest business, government, equally well. Ike is not interested in the dramatic; he's all for the practical. Some are impatient.. They wanted a war which had been going on for years to be resolved almost overnight; said the President had failed because it wasn't. If there was a skilled technician in the art of warfare since the days of Robert E. Lee it's Dwight D. Eisenhower.

The President has said he will reduce costs of government. He has recommended several economy moves and almost invariably he has run into difficulties on Capitol Hill. Members of his own party have been preaching "save" out of one corner of their mouths and voting increased appropriations out of the other corner. That cannot be blamed on Ike. The tidelands oil issue was a tough one to face; the President remained true to his campaign promises and for better or for worse, approved the bill. He's getting un-shirted Hades for it in certain quarters. He'd get it whichever way the result turned. No credit for consistency!

Biggest spender in government today is the Secretary of Defense. The incumbent, Charles E. Wilson, is having difficulty remaining calm under the questioning of country lawyers, embalmers, salesmen, merchants, and the rest of the flock that makes congress representative of the many callings that go into making America. His committee appearances can only be appraised as below the passing mark. And, of course, the President gets the blame. Several other Cabinet members have run into difficulty. The reason probably is that Ike didn't build his Cabinet around strong practitioners of the art of politics like, for example, Franklin D. Roosevelt did when he made Jim Farley a virtual dictator of things political. The Cabinet was more responsible to Big Jim than it was to the White House. Few political blunders were committed. When they did, heads rolled.

The vexatious question of where lines should be drawn between federal and state taxation has been solved in the customary manner by congress. A "study" will be made. At least that is a step forward. A senate committee (Government Operations) plans to establish a committee on inter-governmental relations. It will make a study and file a report on the extent to which the federal and local governments invade each other's taxing territory, how dependent each is on the other.

Most of the states would forego grants-in-aid for various projects if they could have exclusive rights to levy taxes on liquor and tobacco. The states would like, too, to collect taxes on federal buildings -- post offices, National Guard armories and the like. That is strictly wishful thinking, won't be realized. The late FDR always insisted the federal tax collector could levy on state and municipal buildings and, therefore, his collectors could move in on post offices, etc. In view of Supreme Court decisions a century old it was apparent that FDR, who had a law degree, was talking with tongue in cheek.

Farm real estate values have drifted moderately lower during the first four months of this year. The Bureau of Agricultural Economics found the significant declines in the western states. Top grade farms still are in demand; lower quality farms, pasture lands are not bringing much show of interest on the part of investors. In a March survey, less than 10 per cent of real estate reporters expected an increase in prices of farms and one-third thought prices would decline in the next six months.

On another realty front, conditions are improving. The increase in interest rates announced by the Veterans Administration and the FHA on home loans they guarantee is revitalizing the industry. VA has raised the maximum allowable interest from 4 to 4½ per cent. Spot surveys revealed that many lending institutions were developing new interest, were in the market for mortgages at the new rate, offering longer repayment terms.

American Federation of Labor and U.S. Chamber of Commerce have come to grips over amendments to the Social Security Act. AFL says the Chamber has set out to deprive 60 million citizens of established rights in the fund which has reached the astronomical figure of 18 billion dollars. The capital account was built out of payroll deductions which management and employees created; now, says AFL, the U.S. Chamber is "plotting" to divert the funds to handle local relief programs unrelated to the original purposes "blanket everyone in the country under a new kind of relief tax system." The labor organization contends the whole idea is a "walk-out" on Ike's campaign promises to expand the Social Security System, claims it is engineered by the republicans in congress. Matter of fact is that it really adds up to blowing steam off on something which actually is only in the talk stage.

It is easy to criticize any Administration which is in power and to come out on top. Fact is that the White House staff hasn't the time to take on all challengers. But simple fairness would require a review of some of the conditions which seldom appear in the critiques. Like, for example, the dropping of 20,135 payrollers between February and March (some of them merely transferred but they went from obviously non-essential jobs into work where they were needed. Perhaps they didn't cut the payroll, but they kept down the number of additions.) The plain arithmetic is that it is costing less to run the government, from a personnel standpoint, than it cost on the day that Ike pulled up in front of 1600 Pennsylvania Avenue in a black limousine bearing official tags.

John C. Hazen, vice president of the government section of the National Retail Dry Goods Association, probably framed the issue lucidly and fairly when he said: "The fact remains that the Eisenhower administration has made effective progress in many fields. Government employees are being dropped from the payroll in large numbers. The record for the 30-day period between Feb. 1 and March 1 shows that 20,135 people were released from government service. The savings as a result of this reduction are twofold: 1. Some $56 million will be saved in direct expenses; 2. Each person dropped from the payroll can mean less interference by government with business. Incidentally there will be less government in business, where private enterprise can do the job, than in the past. Our disposal of the synthetic rubber program is a good example."

Amendment of the labor-management code (Taft-Hartley Act) can be put down as a 1954 project, might even come later. Congress is moving slowly on this proposition. Both house and senate labor committees have held extensive hearings, heard scores of propositions, nodded appreciation to the witnesses, turned to other matters. A few commas may be inserted this year, no basic change is in sight. The republican-controlled congress doesn't feel itself indebted to organized labor and the law is generally satisfactory to management.

Someone with a sharp pencil has gone over the figures on cost of national security investigation. The results are interesting. They show that the average payout per employee for General Services Administration (which cleans government buildings) is $160 for each employee investigated. The State Department spends an average of $110.50 for investigation of the security risk involved.

Important Elements of Conflict

Between U.S. and Britain

On his last trip to the U. S. Prime Minister Churchill met at the home of his old friend, Bernard Baruch, to discuss British-American relations and other world problems with then President-elect Eisenhower. The President has not been in office for very long so it is not surprising the problems remain. Some think they are more acute than ever.

By JOHN LYONS

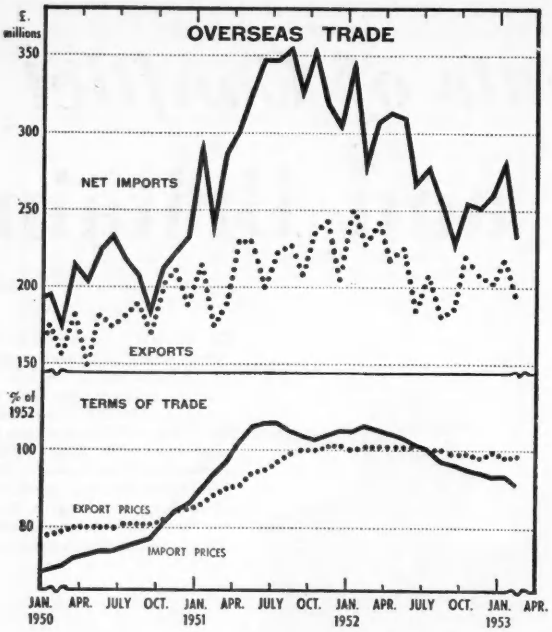
The old saying that Britain and America are divided by a common language was never truer than in the weeks just past. Acrimonious words were exchanged between London and Washington, and as usual the common language did not prevent misunderstanding. Clement Attlee's unfortunate comments on the American Constitution, for example, seemed to mean one thing in England and something quite different in this country. One may hope that the flood of American tourists who witnessed the Coronation has helped restore a measure of cordiality to our relations—in addition to easing Britain's dollar shortage.

The bitter recriminations across the ocean have focused attention on the fact that the economic and political objectives of Great Britain are in many respects different from ours. Whether on a high-level big power meeting, on the conduct of armistice negotiations in Korea, on the recognition of Red China, on East-West trade or on a great many other issues, it is clear that we do not see eye to eye with our ally. Some of the policy differences are of long standing, but their significance appears to have been glossed over in the cold war. This has tended to bring out points of similarity while obscuring the basic points of conflict. Even the superficial easing of tension induced by Malenkov & Co. appears to have accentuated long dormant issues. Will the policy differences between London and Washington become more acute, producing a growing strain on our relations and eventually affecting the alliance, if the new Kremlin rulers play the role of good boys long enough?

Three Areas of Conflict

A survey of the points of conflict between the United States and Great Britain, and especially of the economic factors back of them, may help to shed some light on this question. Policy differences are in evidence in three important areas—Western Europe, the Middle East and the Orient.

In Europe, the drive for economic integration and political federation fostered by the United States and enthusiastically supported by most Continental governments has met with official aloofness, if not hostility, on the part of the British Government, whether Laborite or Conservative. While an ardent proponent of European unity when leader of the opposition, as head of Her Majesty's Government Churchill has continued the lukewarm policy of damning with faint praise initiated by Atlee. The British explanation of their position, baffling and disappointing to most Americans and Europeans, is known as the "theory of three concentric circles": being part of the British Commonwealth and proud of its special relationship with the United States, the United Kingdom cannot enter into any relation with the Euro-



pean continent closer or more intimate than the other two of its links (The Middle East and the Orient). Be that as it may—and the argument has a great deal of historic logic behind it—the policy conflict with the American position remains.

In the Middle East the policy differences center around, though they are not confined to, Iran and Egypt. In Iran, the American attempt to serve as mediator between Britain and Mossadegh has periodically antagonized either one or the other (and at times both) of the parties to the dispute over the Anglo-Iranian Oil Company. In Egypt the differences over policy on the Suez Canal flared up again only recently in the uproar over President Eisenhower's gift of a silver pistol to General Naguib.

In the Far East, Anglo-American disagreements about the seating of Red China in the United Nations, the treatment of Formosa, the conduct of the war and armistice negotiations in Korea, and the question of trade with Peiping are too obvious to require elaboration. Less obvious but no less real are differences of opinion over the economic future of Japan, and particularly her commercial penetration of Southeast Asia in competition with established British interests.

Economic Base of Discord

This last issue brings one close to the root of the matter. For most of the policy differences which divide us from Great Britain have an economic element in common. In essence, they are caused to a large degree by the vulnerable economic position of Britain. Weakened by the economic blood-letting of World Wars I and II, trying to adjust herself to the partial liquidation of the Empire, and threatened by the renewed competition of her old rivals, Germany and Japan, Great Britain is in a position of economic dependence vis-à-vis the United States which breeds constant strains and stresses.

The economic revival of Germany and Japan, which are now successfully attempting to regain their pre-war markets in areas where Britain now has a large stake, further increases her dependence on us. For it is we who have helped rebuild the war-shattered economies of our former enemies, and it is largely in American markets that Britain could compensate for trade losses to Germany and Japan. But, the British feel, they are not afforded a genuine opportunity to increase their exports to this country because of our tariffs, quotas, customs red tape, "Buy American Act" provisions and other manifestations of protectionism. Under the circumstances, Britain may feel that she has no alternative except to look to markets behind the Iron Curtain, from Eastern Germany to Red China, despite our contrary position on this issue.

But what about all of our financial assistance to Great Britain during and since the war—hasn't it eased her position and doesn't it entitle us to some compensation, if not gratitude? The answer is clearly in the affirmative on both counts. But the point to remember is that *without* our assistance Britain's economic position would have become untenable, and our relations with her might well have reached the breaking point.

Our total aid to Great Britain, economic and military, since the beginning of World War II has now reached the staggering amount of more than $30 billion. What is often lost sight of, however, is that almost $24 billion of this amount was Lend-Lease aid, largely in military equipment, extended to keep the RAF, the British navy, army and productive facilities in the fight against Nazi Germany. Few military historians would care to argue that the war could have been won without Britain or without this aid.

Of the $6.3 billion of economic aid after the war, $4.3 billion was extended as a *credit* under the loan agreement negotiated at the conclusion of the war, following the abrupt ending of Lend-Lease aid. Marshall Plan grants to Britain have gradually decreased each year, from $976 million in 1949 to $656 million in 1950, $215 million in 1951 and $164 million in 1952, when economic aid was suspended entirely. True, military aid under the NATO program, in the form of military equipment shipments and off-shore purchases, still continues. Yet it is precisely the burden of rearmament, which military aid is intended to mitigate, which imposes the most severe added strain on the British economy, an added strain, it might be noted, from which Britain's competitors, Germany and Japan, have not suffered thus far.

Dollar Earnings Through Exports to U. S.

With U. S. economic aid at an end, the United Kingdom is more than ever dependent for dollar earnings on her exports to the United States. British exports to this country rose by almost 40 per cent from 1950 to 1951 (from $335 million to $466 million), but the growth has not continued in 1952. The reason lies partly in English domestic failings, such as inadequate investment in dollar-export industries and similar factors. But in large part, the lag in British exports to the United States must be largely ascribed to conditions on this side of the ocean.

Our tariffs and import quotas, together with delays and red tape involved in customs formalities and labelling requirements, have long been a thorn in the side of British exporters. The "peril point" and "escape clause" provisions written into the Reciprocal Trade Agreements Act in recent years have

aggravated the situation, while the repeated failure of Congress to pass the Customs Simplification Bill has been an added source of frustration. On top of these long-standing obstacles to freer trade, recent developments in Washington have seemed to the British to offer evidence of increased protectionism.

Manifestations of a growing high-tariff philosophy were seen in the Simpson Bill on the extension of the Reciprocal Trade Agreements Act, which includes a number of severe new quota restrictions and higher tariffs and curtails the powers of the President in tariff matters; in the imposition by the Treasury Department of "counter-vailing duties" on wool tops from Uruguay because of subsidies involved in multiple exchange rates, and the threatened extension of such retaliation to other countries practicing similar foreign exchange devices; in the appointment to the Tariff Commission of Joseph E. Talbot, believed to hold strongly protectionist views, together with the proposed enlargement in the membership of the Commission to insure a more protectionist policy on its part; and, last not least, in the rejection of the low bid by the English Electric Co. Ltd. on equipment for the Chief Joseph Dam project in Washington State.

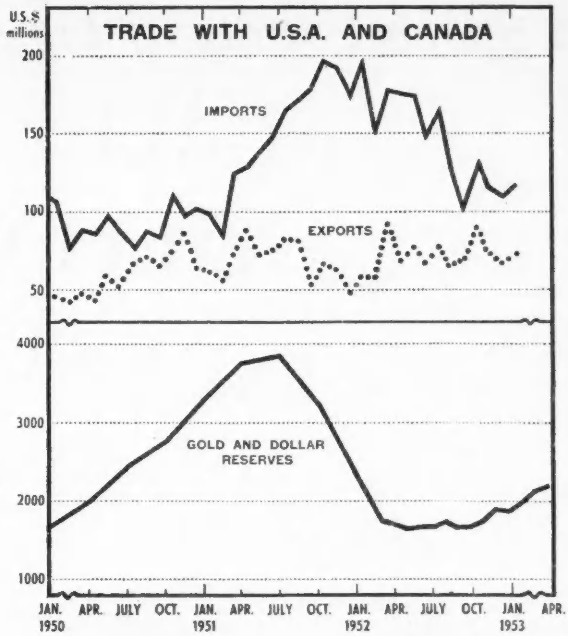
This last incident, in particular, has provoked bitter complaints on the other side of the Atlantic. The Buy American Act had long been a sore spot with British exporters in any event, but in the Chief Joseph Dam case it appeared to the British that the contract should have been awarded to the low bidder even under the restrictive provisions of that Act. What is more, the episode was interpreted in London as evidence of protectionism *within* the Administration, since the English bid was rejected by Secretary of Defense Charles E. Wilson and his decision was approved by President Eisenhower.

As a result of this incident, Peter Thorneycroft, President of the Board of Trade, bitterly advised the House of Commons that "it is not enough for us to be competitive if the Americans are to use artificial methods to shut our goods out of their markets." Sir Andrew McFadyean, Vice-President of the Liberal Party, went even farther when he caustically remarked that the Chief Joseph Dam case "could legitimately be interpreted as a message from President Eisenhower that there is a great gulf between words and deeds, that the only specific he has for establishing a proper balance between the dollar and sterling is repeated doses of eyewash."

With this bitter note all the pent-up antagonism over trade and tariffs, focused on a single dramatized issue, spilled over into the realm of high policy and became a paramount source of conflict in itself. It is not unlikely that most of the recent darts aimed at Washington had been dipped in the venom stirred up by frustrated trade aspirations.

Britain vs Japanese and German Trade Potentialities

This seems the more likely because the resentment over American tariffs is only one of several less well-publicized issues of economic conflict between London and Washington. Another significant source of friction concerns the future economic role of Japan. American economic policy, having helped restore Japan's productive facilities, sees her futur trade relations oriented toward the countries of Southeast Asia, since her pre-war markets in China appear ruled out by strategic considerations toward Mao's



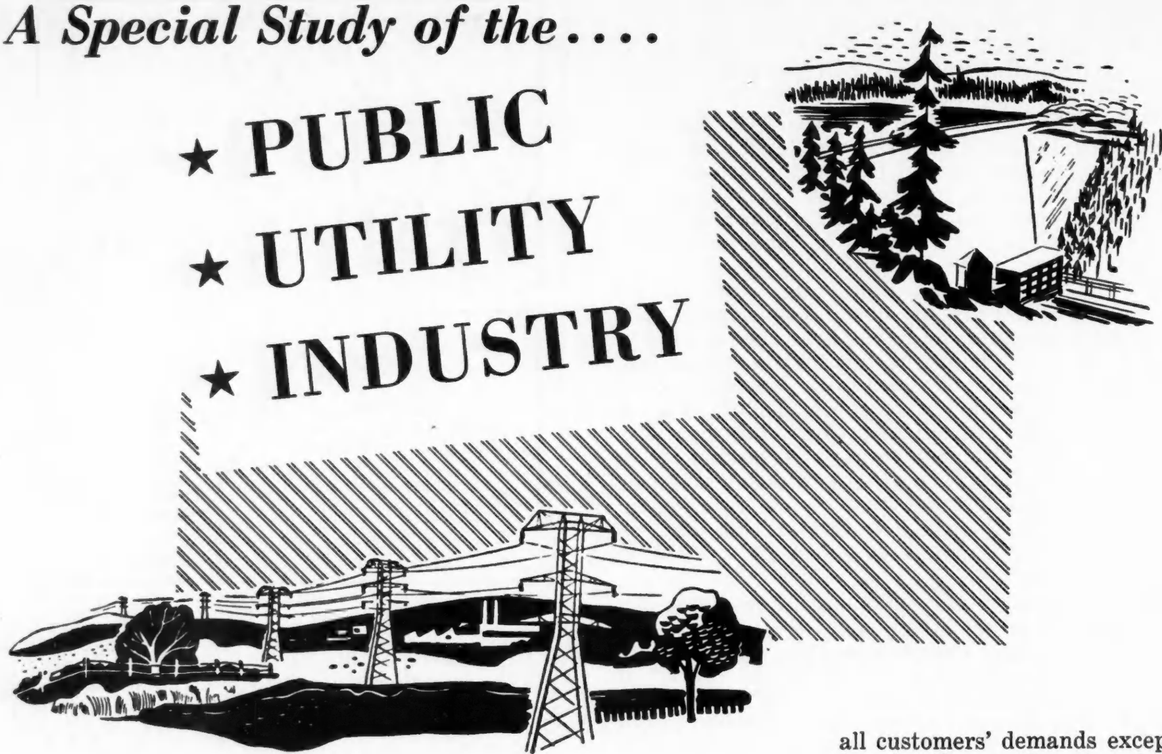
regime. To Britain this means the specter of Japanese commercial penetration into India, Pakistan, Ceylon, Burma and other areas where she has vital economic interests. Not unnaturally, she would prefer to see Japanese commercial expansion in the direction of Red China—or that of the United States.

As Japan is a natural competitor of Great Britain in exports of manufactured goods to the countries of Southeast Asia, so is Germany, with the added aggravation that Germany's competition extends to Europe, Latin America and the Middle East as well. An economic study made by the United Nations last year revealed that heavy inroads on British export markets, especially in Latin America, have already been made by Germany. British statesmen are probably too realistic to regard this situation as anything other than the price that has to be paid to make Germany strong against the threat of Soviet aggression. But the price must often appear exorbitant to English traders and producers faced with renewed German competition in all the markets of the world. And British statesmen no less than exporters are painfully aware that German recovery and competition, like those of Japan, were made possible by generous financial support on the part of the United States. Thus our need to bolster the economies of our newer allies runs counter to the economic interests of our oldest, closest and most important associate one of those paradoxes so often encountered in foreign policy.

In addition to latent friction over Japan and Germany there is the open clash over East-West trade. Britain's dependence on non-dollar sources of supply, especially of grain and timber, makes her look on trade with the Iron Curtain countries with considerations at variance with our own. When the beckoning vistas of markets from the Elbe to the Yangtze are added to this dependence, the discrepancy in outlook becomes one incapable of easy, hard and fast solutions. The prospect, moreover, is that Great Britain may be forced to expand her trade relations with the So- (*Please turn to page* 352)

A Special Study of the....

★ PUBLIC ★ UTILITY ★ INDUSTRY



By OWEN ELY

During the past year the utility industry has continued its program of rapid expansion, necessitated by the post-war growth in population and the increased usage per customer. This has resulted in frequent and heavy sales of new securities of all kinds, which on the whole have been readily absorbed by investors due to the general confidence in the future of the industry.

Recent weekly reports of the total output of electricity for various areas show gains averaging about 12% over last year:

	May 16	May 9	May 3
New England	11.5	13.3	13.9
Mid-Atlantic	8.6	10.4	9.3
Central Industrial	10.2	12.2	19.1
West Central	11.1	12.4	14.1
Southeast	17.9	18.7	16.6
South Central	13.0	4.7	9.7
Rocky Mountains	11.8	12.5	16.8
Pacific Northwest	13.2	9.0	10.7
Pacific Southwest	11.0	10.3	12.2
Total United States	11.9	12.2	14.2

The utilities in the Southeast continue to "lead the procession." The gains in New England seem to reflect improvement in the textile industry as well as more plentiful water for hydro operations.

The utilities did not quite keep up with this growth in the installation of new facilities: in March total capacity (including public as well as private facilities) approximated 83 million KW, a gain of about 9% over the previous year. However, there is little doubt that the industry has been able to take care of all customers' demands excepting in the northwest, where there is almost a chronic shortage despite huge government hydro projects in that area.

In the twelve months ended February 28 the privately-owned electric utility companies showed the following gains over the previous period:

Service	Number of Customers	KWH Sales	Gross Revenues
Residential	4.0%	12.6%	11.4%
Commercial	2.2	9.2	8.8
Industrial	2.9	4.4	6.3
Total ultimate customers	3.5%	6.6%	8.3%

In this period the utilities were able to convert an 8% gain in revenues into a 13.5% increase in net income (for the month of February there was a gain of 11.3%).

This improvement in net earnings was obtained without very much change in rates. It is true that a number of rate increases were allowed and there were few downward adjustments. However, in the residential bracket (considered the most profitable) the use of "promotional" rate schedules continued until recently to offset rate increases and produce a lower average residential rate per kwh. By promotional schedules is meant progressively lower rates as the residential customer uses larger amounts of electricity for new facilities such as TV, electric stoves, washing machines, etc. Thus, in the 12 months ended February the average residential rate was 2.76¢ compared with 2.80¢ in the previous period. In the latest period householders used an average of 2,195 kwh compared with 2,037 in the earlier period.

However, in the month of February residential revenues gained slightly more than kwh sales, over the same month last year, apparently indicating that the decline in the average kwh rate, downward for many years, has been temporarily checked. The utilities have made a remarkable achievement in deferring until this year any increase in the average cost of their product to residential consumers. The economies of large-scale production have been promptly passed on to consumers, who perhaps fail to appreciate that there has ben a constant reduction in the unit price. But inflation is now catching up with the utilities and in order to promote the huge expansion program and take care of consumers' demands for better service, they have no recourse but to put an end to the continued downward trend of residential rates.

The utilities' commercial business has tended to follow the trend of residential, and here also the latest monthly figures indicate that a higher average rate is now in effect. In the industrial end of the business, rates have been adjusted upward more

Comparative Earnings, Dividend Record and Comment on Important Electric Utilities

	Earnings Per Share			Dividends Per Share			Recent	Div.	Price Range
	1950	1951	1952	1950	1951	1952	Price	Yield†	1952-53
American Gas & Electric	$ 2.43	$ 2.13	$ 2.33	$ 1.50	$ 1.50[1]	$ 1.50	31	4.8%	34 -29
Central & South West Corp.	1.44	1.34	1.60	.90	.90	.95	19	5.0	22½-16½
Cincinnati Gas & Electric	1.50	1.46	1.40	.85	.97½	1.00[1]	19	5.2	21¾-18⅝
Cleveland Electric Illum.	3.40	3.68	3.45	2.40	2.40	2.60	52	5.0	56⅜-48¾
Commonwealth Edison	2.12	1.93	2.25	1.60	1.70	1.80	35	5.1	37⅜-30¼
Consolidated Edison	2.44	2.26	2.63	1.70	2.00	2.00	39	5.1	40⅝-32¾
Consolidated Gas, Elec. Lt. & Pr., Balt.	1.85	1.67	1.79	1.30	1.40	1.40	26	5.3	28 -25¼
Consumers Power Co.	2.78	2.61	2.65	2.00	2.00	2.00	38	5.2	38⅜-34⅛
Dayton Power & Light	2.87	2.74	2.85	2.00	2.00	2.00	35	5.7	38⅛-33½
Detroit Edison	2.18	1.68	1.71	1.20	1.20	1.40	25	5.6	25⅞-23
Duquesne Light Co.	1.82	2.01	2.10	[2]	[2]	1.50	27	5.5	29⅜-27
General Public Utilities	2.22	1.84	2.17	1.10	1.25	1.45	26	5.5	29 -20⅞
Illinois Power Co.	2.84	2.77	2.89	2.20	2.20	2.20	39	5.6	42½-35¾
Indianapolis Pr. & Lt.	3.61	3.34	2.97	1.60	1.85	2.00	37	5.4	41¼-33½
Middle South Utilities	1.82	1.81	2.03	1.10	1.20	1.25	26	4.8	28⅜-20¾
New England Electric System	1.43	1.31	1.23	.80	.80	.87½	13	6.7	14¼-12
Niagara Mohawk Power	1.96	1.81	1.92	1.40	1.45	1.60	27	5.9	28½-24⅝
Northern States Power	.93	.85	1.04	.70	.70	.70	13	5.3	14⅛-10⅝
Ohio Edison	2.93	2.60	2.97	2.00	2.00	2.05	38	5.4	39¾-33⅛
Pacific Gas & Electric	2.48	2.04	2.30	2.00	2.00	2.00	38	5.2	40 -32⅜
Philadelphia Electric	2.31	2.02	2.20	1.35	1.50	1.50	31	4.9	33⅜-29
Public Service Elec. & Gas	2.06	2.13	1.93	1.60	1.60	1.60	26	6.1	27½-24⅛
Public Service of Indiana	2.54	2.06	2.39	1.75	1.80	1.80	32	5.6	36½-28¾
Southern California Edison	3.18	2.98	3.33	2.00	2.00	2.00	36	5.5	39⅜-34
Southern Company	1.07	1.04	1.18	.80	.80	.80	15	5.3	16⅞-12¾
Utah Power & Light	2.75	2.36	2.54	1.70	1.80	1.80	31	5.8	34⅝-28½
Virginia Electric & Power	1.86	1.65	1.74	1.20	1.20	1.35	25	5.4	27⅜-21⅜
West Penn Electric Co.	3.48	2.97	3.24	1.85	2.00	2.05	35	5.8	37¾-29½

†—Based on 1952 dividend. [1]—Plus stock. [2]—Information not available; entire common stock owned by Philadelphia Co.

American Gas & Electric: Cash dividend (recently increased) supplemented by occasional stock dividends. Dynamic engineering management. Stock seems reasonably priced in relation to earnings.

Central & South West: One of the southern holding companies, enjoying rapid growth. Dividend payout conservative and increase anticipated. Recent equity financing.

Cincinnati Gas & Electric: Stock recently split two-for-one. Quality stock with high equity ratio. Stable earnings seem assured by unique escalator-clause in rate schedule.

Cleveland Electric Illuminating: Yield below average, but stock of good quality and possible candidate for split-up. Cleveland widely advertised as center of industrial empire.

Commonwealth Edison: Third largest electric utility. Yield below average, but equity ratio high. Rate increase to be sought, and might increase earnings substantially if granted.

Consolidated Edison: Largest electric utility with common stock dividend record since 1885. Earnings increase to around $3 or more anticpiated, which might warrant eventual increase in dividend to $2.40.

Consolidated Gas of Baltimore: Earnings have shown consistent gains in recent years and may improve further if rate increase obtained. Sound capital structure.

Consumers Power: Serves substantial part of Michigan outside Detroit area, with industrial sales balanced by farm business. Dividend recently raised to $2.20 affording good yield.

Dayton Power & Light: Sound equity with about average yield. Regulatory outlook in Ohio subject to some uncertainty, account proposed change in state law.

Detroit Edison: One of the premiere utilities, with stable price record. Yield adequate and earnings are improving.

Duquesne Light: Recent newcomer to New York Stock Exchange. Dividend being raised to $1.60. Seems reasonably priced in relation to earnings and prospects; tax-free feature in Pennsylvania.

General Public Utilities: Management has been very successful in rebuilding properties, stimulating earnings and dividends. Further gains seem likely. Philippine subsidiary doing well.

Illinois Power: Gives satisfactory yield. Company plans to apply for rate increase in near future. Capital structure on conservative basis.

Indianapolis Power & Light: Dividend payout ratio only 66% indicating potential dividend increase. Equity ratio somewhat below average, excluding plant acquisition adjustments and intangibles.

Middle South Utilities: Successful "growth" holding company with steady increase in earnings and dividends. Equity ratio improved by frequent equity financing. Continued near-term growth seems assured.

New England Electric System: Important holding company, 33 subsidiaries to be reduced by mergers and eventual sale of gas properties. High yield, and eventually dividend rate may be restored to $1.

Niagara Mohawk Power: Biggest U. S. seller of industrial power. Above-average yield. Share earnings (diluted by recent financing) expected to recover to around $2 level this year.

Northern States Power: Important system serving large areas in Minnesota, Wisconsin, etc. Conservative dividend payout, and anticipated further gain in earnings indicates possible dividend increase.

Ohio Edison: Serves substantial areas in Ohio, with Pennsylvania subsidiary. Dividend recently increased, affording good yield. Sound capitalization, low residential rates.

Pacific Gas & Electric: Now second largest electric utility, with huge construction program. Formerly handicapped by droughts and unfavorable regulation, but $33 million rate increase and better hydro operations are improving earnings.

Philadelphia Electric: Conservative old-line company, revitalized by industrial development around U. S. Steel's new Fairless Works. Yield low, but stock popular in Pennsylvania because of tax-free feature.

Public Service Electric & Gas: Yield of 6% above average for large electric-gas utilities. While handicapped by unfavorable regulation in the past, situation seems to be improving. Good growth.

Public Service of Indiana: Company has greatly improved its equity ratio since 1947. Yield about average, earnings improving. Share earnings irregular in 1949-51 but now improving.

Southern California Edison: Earnings reduced by current drought but still ample in relation to dividend. Company has applied for rate increase, but decision may take some time.

Southern Company: Improving earnings diluted by stock issue, but expected to recover to $1.20 level or better. Dividend payout relatively low and eventual improvement anticipated, due to rapid growth.

Utah Power & Light: Affords good yield, and rapid gain in earnings indicates possibility of increase in dividend rate to $2. Business well diversified.

Virginia Electric & Power: Share earnings increased rapidly in 1949-50, have been irregular since. Yield about average. Company recently obtained permission for important hydro development.

West Penn Electric: Affords excellent yield based on increased dividend. Further gains in earnings and dividends appear likely during 1953-54. Price-earnings ratio below average.

1952 Key Statistics and Ratios of

	American Gas & Elec.	Cincinnati Gas & Elec.	Cleveland Elec. Illum.	Common-wealth Edison	Consoli-dated Edison	Consoli-dated Elec. Lt. & Power of Balt.	Detroit Edison
PLANT VALUE (MILLIONS) GROSS	$898	$242	$323	$1,264	$1,625	$295	$623
Depreciation Reserve	181	55	85	313	313	60	119
Net Plant Account	716	187	238	951	1,312	235	504
CAPITAL RATIOS							
Funded Debt to Total Capitalization	59	50	45	50	44	50	51
Preferred Stock to Total Capitalization	9	14	9	6	13	12	....
Common Sock & Surplus to Total Capitalization	32	36	46	44	43	38	49
ANALYSIS OF REVENUES — Electricity %	100	64	96	86	78	73	97
Gas %		34	....	13	16	25	....
Miscellaneous %		2	4	1	6	2	3
INCOME ACCOUNT							
Gross Revenues (Millions)	$206	$82	$86	$304	$435	$91	$172
Operating Expenses (including purch. power or gas)	80	46	39	142	189	53	89
Maintenance	18	4	5	21	44	7	15
Depreciation	21	5	8	30	36	7	13
Taxes — Federal Income	26	10	11	32	41	11	11
Taxes — Other	15	5	6	34	61	6	13
Net Operating Income (after all taxes)	43	11	15	44	62	13	24
Gross Income	45	12	15	46	62	13	25
Fixed Charges, Etc.[1]	11	1	3	13	15	3	8
Net Income	27	10	12	33	45	10	17
EXPENSE RATIOS							
Ratio Depreciation to Gross Revenues	10%	6%	10%	10%	8%	7%	8%
Maintenance to Gross Revenues	9	6	6	7	10	8	8
Combined Deprec. & Maintenance to Gross Rev.	19	12	16	17	18	15	16
Operating Ratio (including taxes)	80	86	82	85	86	85	86
EARNINGS RATIO							
No. of Times Fixed Charges Earned after Taxes[1]	4.0	8.0	5.2	3.5	4.0	4.3	3.2
ANALYSIS OF ELECTRIC REVENUES (% of Total)							
Residential & Rural	17	34	30	32	34	19	38
Commercial	8	13	61[3]	30	56[3]	21	28
Industrial	60	45	....	27	....	60	30
Other	15	8	9	11	10	....	4
COMMON STOCK — Recent Price	$30	$19[2]	$51	$34	$38	$26	$25
Indicated Dividend Rate	$1.50	$1.00[2]	$2.60	$1.80	$2.20	$1.40	$1.40
Dividend Yield	5.0%	5.2%	5.1%	5.2%	5.7%	5.3%	5.6%
Earned per Share on Common Stock in 1952	$2.33	$1.40[2]	$3.45	$2.25	$2.63	$1.79	$1.71
Price-Earnings Ratio	12.9	13.5	19.6	15.1	14.4	14.5	14.6
Dividend Pay-out %	64%	71%	75%	80%	83%	78%	82%

1—Includes interest on construction credit.
2—After 2-for-1 stock split, effective May 20, 1953.
3—Combined Commercial and Industrial.
4—Includes commercial.

easily, which is explained by two factors: (1) as a rule utilities don't make as large a profit margin on industrial business, which tends to be competitive and marginal, and (2) the state commissions are generally more willing to "go along with" increases in industrial rates, since these are less of a political factor than residential increases would be.

Much has been said about increased generating efficiency, but these gains have frequently been absorbed by the higher cost of coal, due to the demands of John L. Lewis. For example, New England Electric System in 1952 burned less than a pound of coal to produce a kilowatt-hour, compared with over a pound and a half in 1941; but last year coal (or the oil equivalent) cost $10:90 per net ton compared with only $7.82 in 1945. Thus, the cost of generating steam power was reduced only from 89¢ to 75¢, and the cost of purchased power rose fairly sharply. Recently, however, the utilities have obtained the benefits of cheaper fuel, particularly along the eastern seaboard. Imports of bunker C oil from Texas and Venezuela come to the seaboard in steadily increasing amounts and the utilities have been replacing coal with oil, with the result that coal prices have also been reduced. However, legislation has been introduced in Congress to check oil imports.

The electric utilities have had to contend with a continued rise in wage rates and "fringe benefits." While the cost of living has remained almost stationary over the past year, the unions have continued to demand higher wage rates, which have generally been granted in order to avoid labor troubles. The

Important Electric Utility Companies

Illinois Power	Middle South Util.	Niagara Mohawk Power	Northern States Power	Ohio Edison	Pacific Gas & Elec.	Phila. Elec.	Public Service Elec. & Gas	Southern Calif. Edison	Southern Company	Virginia Electric & Power
$253	$466	$716	$373	$327	$1,689	$693	$712	$705	$754	$338
29	77	210	71	64	326	133	171	128	114	39
224	389	506	302	263	1,363	561	541	577	640	299
51	59	54	48	44	48	49	52	46	54	52
15	7	15	21	17	21	13	8	22	15	17
34	34	31	31	39	31	38	40	32	31	31
77	82	86	89	98	65	85	76	100	99	96
22	10	14	9	....	34	13	24	....	....	4
1	8	....	2	2	1	2	....	....	1	....
$54	$116	$189	$99	$91	$314	$175	$214	$126	$164	$77
22	46	86	41	35	127	74	94	37	60	35
3	8	15	6	7	17	13	22	9	10	6
6	11	15	8	8	32	16	14	13	19	6
9	15	19	15	15	39	29	23	19	25	8
3	11	23	9	6	34	7	26	15	12	5
11	23	30	19	17	63	33	33	31	34	15
11	23	30	19	19	63	34	34	32	35	15
3	6	6	4	4	16	6	10	7	14	3
8	16	23	15	16	47	27	23	24	20	18
11%	10%	8%	8%	8%	10%	10%	7%	11%	10%	8%
6	7	8	6	8	5	8	10	7	6	8
17	17	16	14	16	15	18	17	18	16	16
79	80	84	80	80	80	80	84	75	78	80
4.1	3.5	4.7	5.2	5.6	3.9	5.5	3.4	4.2	2.6	4.4
41	34	87	42	35	43	32	34	44	33	42
25	26	12	47[3]	22	47[3]	22	29	21	26	32
27	28	....	....	37	....	34	34	25	31	15
7	12	1[4]	11	6	10	12	3	10	10	11
$38	$26	$27	$13	$38	$38	$31	$26	$36	$15	$25
$2.20	$1.40	$1.60	$.70	$2.20	$2.00	$1.50	$1.60	$2.00	$.80	$1.40
5.7%	5.3%	5.9%	5.4%	5.7%	5.2%	4.8%	6.1%	5.5%	5.3%	5.6%
$2.89	$2.03	$1.92	$1.04	$2.97	$2.30	$2.20	$1.93	$3.33	$1.18	$1.74
13.1	12.8	14.0	12.5	12.8	16.5	14.1	13.4	10.8	12.7	14.3
76%	69%	83%	67%	74%	87%	68%	83%	60%	67%	80%

utilities have been able to offset higher wages to a considerable extent by introducing new efficiencies such as bi-monthly billing, use of accounting machines, installation of new generators which require much less labor, etc. Thus the number of employees has increased very little and the gain in wages has been held to just about the amount of the increased KWH output.

Important Tax Concession

Federal taxes are an important factor in earnings, and the utilities obtained a real concession from Congress last year in the dropping of the so-called tax on electrical energy. This served to offset the rise in the corporate tax rate. Following is a breakdown of the electric utilities' tax bills:

	12 Months Ended Feb. 28 (in Milions) 1952	1953
Federal Excess Profits Taxes	$ 6	$ 8
Federal Income Taxes	638	737
Other Federal Taxes	84	17
Staet and Local Taxes	431	472
Total	$1,159	$1,235

Congress is also permitting the utilities to save on taxes by charging off much of the cost of their new plants (classed as "defense plant") over a five-year period instead of over the customary thirty or forty years used in regular accounting. This

means that considerably smaller net earnings will be reported to the Treasury Department, and income taxes reduced accordingly. In the 12 months ended February, this saving amounted to $3,581,000 and it will continue to gain rapidly (based on the February saving of $550,000, a projected annual amount would approach $7 million).

This substantial cash saving can be applied toward the construction program. However, few utilities are taking advantage of the savings in their reported earnings to stockholders, since the savings are somewhat abnormal. Some utilities are setting up reserves so that the savings can be used after the five-year period is over, when higher taxes will again accrue.

The electric light and power industry still has big plans for expansion, but these are beginning to taper off slightly, as indicated by the following estimated projections in a preliminary survey recently made by the EEI:

Year	Capability Scheduled (millions KW)	Peak Load	Percentage Reserve
1951	76	68	12%
1952	81	73	12
1953	95	83	15
1954	107	92	16
1955	118	99	19
1956	125	107	18

The increase in KW capacity in 1954 would be 12 million KW, compared with 14 million for 1953, and only 5 million in 1952 (when material shortages interfered). In 1955 the increase is estimated at 11 million and in 1956 at only 8 million.

Perhaps 2-3 million KW of this program will represent plants being built by private utilities, principally in the middle west, to supply the added requirements of the Atomic Energy Commission. Large Federal hydro projects scheduled for completion over the next two or three years are also included. However, the figures represent a very substantial construction program by the private utilities, and some of them are beginning to question whether these plans should not be curtailed in view of all the talk about a business recession. Thus far only one large company, Southern California Edison, has announced a definite cutback in its program.

Some companies are perhaps also having some qualms about the rapidly rising cost of financing construction, due to the rise in interest rates. Southern Bell Telephone Company recently rejected a bid of 101.30 for $30 million debentures carrying a 3⅞% coupon. Public Service Electric & Gas has postponed the proposed sale of $50 million first and refunding mortgage bonds scheduled for June, due to the current high cost of money. These companies are apparently hopeful that the recent tight money market will "loosen up" over the next few months.

It seems generally recognized that the utilities would be very little affected by a mild business "recession." Population and industry gains are continuing in the growth areas, and it would undoubtedly take a severe and prolonged depression to make families "double up" again as they did in 1930's. With electric bills still an insignificant part of the family budget—only about $5 a month on the average it seems unlikely that the average family would attempt to economize in this direction unless there were wide-spread unemployment and penury. It also appears likely that sales of appliances will continue at a fairly heavy rate, with occasional setbacks due to oversales or readjustments in credit terms.

More Rate Increases

On the regulatory front, the situation shows marked improvement. As mentioned above, a number of rate increases have been granted in the past year, headed by the $33 million increase allowed to Pacific Gas & Eectric. There have been one or two disappointments it is true, such as the order by the Pennsylvania State Commission to West Penn Electric taking away part of an earlier rate increase, which the company had considered closed; however, the Commission still adheres to the "fair value" basis of regulation, including an allowance for cost of reproduction, which is favorable. The Illinois Commission was recently ordered by the State Supreme Court, in the Bell Telephone decision, to adopt fair value; Illinois Power and Commonwealth Edison have now indicated their intention of asking for rate increases. The rate situation in California, formerly another "tough" state from the utility standpoint, has also improved. The situation in New England still remains uncertain, though there are some signs that here too the regulatory ice may be melting a little.

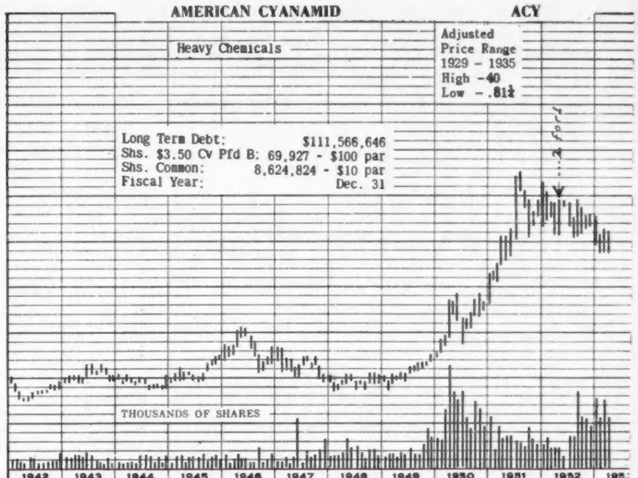
The change in the Washington administration has greatly improved the utility outlook from the angle of Government competition. Secretary of Interior McKay is following a middle-of-the-road policy, which means that the former practice of the Interior Department of fighting the utilities on every front with all sorts of dubious propaganda and devices, is being discontinued.

Of course, the Administration will finish the big hydro projects already initiated and may begin some new ones, but it apparently will not urge Congress to appropriate large funds for Federal steam plants and competing transmission lines. It seems probable that the Federal law which provided for preferential sales of Federal power to public power agencies of all kinds, frequently at the expense of private utilities, will be reinterpreted and possibly modified. Moreover, Secretary McKay's decision not to oppose the program of Idaho Power Company in the further development of hydro projects on the Snake River, together with the recent Supreme Court decision permitting Virginia Electric & Power to proceed with a hydro development in Virginia (formerly opposed by Interior) should give the private utilities much greater leeway to carry out their share of developing remaining hydro-electric sites.

Proponents of public ownership have also been losing ground, particularly in the northwest where the so-called PUDs (Public Utility Districts, usually county-wide political units) have been checked in their program of taking over private utilities step-by-step, by negotiation or condemnation. The President of Washington Water Power, Kinsey Robinson, put up a strenuous fight and prevented sale of his company to the PUDs; now he is trying to merge another large utility, Puget Sound Power & Light, with Washington, preventing sale of Puget to the PUDs in a negotiated deal.

Market Action of Utility Stocks

The utility stocks continued to do well marketwise up to March this year, when the Dow Jones Utility Average reached a (*Please turn to page* 354)



1942	1943	1944	1945	1946	1947	1948	1949	1950	1951	1952	195:
.89	1.14	1.10	1.01	1.45	1.48	1.92	2.64	4.50	4.04	3.07	
• .30	• .30	.67½	.62½	.75	.50	.75	1.00	2.31½	2.00	2.00	
49.3	54.2	54.9	71.9	55.2	67.6	68.6	73.1	128.4	123.1	177.0	Wkg Ca

• Plus Stock Dividend

5 Outstanding Investments

For The Future

By OUR STAFF

The rewards of investing in sound "growth" stocks are clearly demonstrated by the history of many famous issues. Investors who had the foresight to purchase stocks of this character at comparatively low points in their market movements have had little cause of complaint. Similar opportunities for purchasing "growth" issues confront today's investor. It is not necessary to wait until the market has had a severe decline in order to make appropriate purchases. Through the device known as "dollar averaging," such stocks can be bought regardless of their price levels. The essential requisite is the selection of the proper issue and to follow the initial commitment with systematic purchases of additional shares at intervals, investing approximately the same amount of cash on each subsequent purchase. The procedure should be carried on over a period of years, the objective being to secure the advantage of a favorable average price.

Not all stocks, of course, qualify under this plan. In fact, only the strongest of those with distinct "growth" possibilities are suitable. Furthermore, the method is best adapted to investors who have a long-range program, and whose financial resources can reasonably be relied upon from year to year to provide the funds for the purchase of additional shares proportioned on the basis of the original commitment.

We have selected five issues we believe to be outstanding as investments for the future, and on which we comment on this and adjoining pages.

Owing to current market uncertainties, however, we believe that for those investors intending to make only a single purchase, a better opportunity for investing may be had after the general market has had a further test. This, of course, does not apply to investors who intend to adopt the "dollar averaging" plan inasmuch as any purchase made now by these investors can be averaged in following years.

AMERICAN CYANAMID COMPANY

BUSINESS: Ranking as one of the top level producers of industrial and agricultural chemicals, American Cyanamid continues to widen operations through development of new chemicals, plastic materials, surgical specialties and pharmaceutical and biological products. It is also developing a synthetic fiber, and by 1954, it will be operating in the field of chemicals based on natural gas.

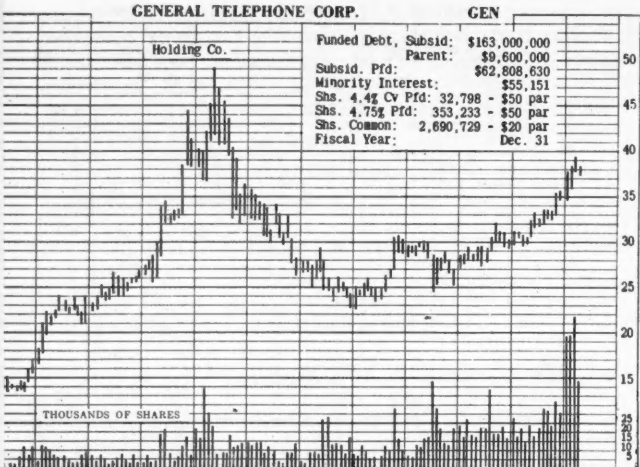
OUTLOOK: The company holds a unique position in that it is one of the leading manufacturers of chemicals for industry and agriculture and at the same time rates a high position in the field of pharmaceutical and biological products. Its Lederle Laboratories, one of the foremost units in the drug field, has to its credit some outstanding drug discoveries, one of the most prominent of which is aureomycin, recognized by the medical profession for its effectiveness against a number of diseases. Within the last 17 years, total sales of American Cyanamid have increased more than 100 per cent, or from $159 million in 1945, to $388.7 million in 1951, although 1952 registered a decline to $368.4 million. The key to the company's growth, which promises much for the future, is its continuing policy of aggressive approach to progress through research. Its diversified operations, including manufacture of dyestuffs and pigments, industrial explosives and mineral dressing chemicals, give it a broad field in which to work. Recent new developments have been "Malathion" an insecticide, "Calcodur" resin fast dyes, "Cyron" synthetic size for paper, and "Chemico" technique for recovery of metals, particularly, cobalt, nickel and copptr. Its new synthetic Acrylic Fiber is now in the pilot plant stage, and in the laboratories the search continues for better antibiotics, for preventives and cures of polio, cancer, tuberculosis and diseases of the heart. By early 1954, the new $48 million petrochemical plant will be turning out a variety of chemicals for industry and agriculture, augmenting sales and earnings and contributing to the companys growth.

DIVIDENDS: Has paid dividends in each of the last 19 years. Quarterly payments of 50 cents a share have been maintained since the 100% stock dividend in 1952.

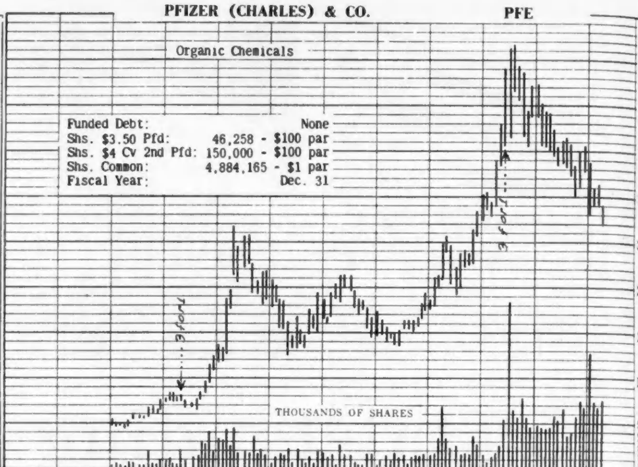
MARKET ACTION: Recent price of 48, compares with a 1952-53 price range of High—62¼, Low—47. At curent price the yield is 4.1%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1942	1952 (000 omitted)	Change
ASSETS			
Cash	$ 20,901	$ 61,139	+$ 40,238
Marketable Securities	15,099	77,563	+ 62,464
Receivables, Net	15,444	40,169	+ 24,725
Inventories	29,032	67,452	+ 38,420
TOTAL CURRENT ASSETS	80,476	246,323	+ 165,847
Net Property	34,933	155,621	+ 120,688
Investments	9,702	14,966	+ 5,264
Intangibles	5,000	....	— 5,000
Other Assets	1,888	2,970	+ 1,082
TOTAL ASSETS	$131,999	$419,880	+$287,881
LIABILITIES			
Curr. Debt mat.	....	$ 4,861	+$ 4,861
Accounts Pay. & Accruals	$ 14,943	36,675	+ 21,732
Tax Reserves	16,198	27,729	+ 11,531
TOTAL CURRENT LIABILITIES	31,141	69,265	+ 38,124
Reserves	5,745	1,232	— 4,513
Long Term Debt	29,058	111,566	+ 82,508
Preferred Stock	12,934	8,853	— 4,081
Common Stock	26,184	85,485	+ 59,301
Surplus	26,937	143,479	+ 116,542
TOTAL LIABILITIES	$131,999	$419,880	+$287,881
WORKING CAPITAL	$ 49,335	$177,058	+$127,723
CURRENT RATIO	2.6	3.5	+ .9



	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953
EARN	.22	2.24	2.02	2.26	3.08	2.14	2.39	2.16	2.68	2.63	3.15	
DIV	.60	1.60	1.60	1.60	1.60	2.00	2.00	2.00	2.00	2.00	2.00	
Wkg Cap $ Mil	.4	6.4	8.5	9.9	4.9	9.9	d2.9	4.6	d8.6	8.2	13.4	



	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953
EARN	.28	.40	.52	.41	2.39	2.09	2.12	1.73	2.20	2.41	2.17	
DIV	.18⅞	.18¾	.22½	.28⅞	1.23⅓	.91⅔	.91⅔	.91⅔	.91⅔	.98⅓	1.15	
Wkg Cap $ Mil	5.2	5.9	6.2	9.1	10.9	18.1	20.2	21.3	24.0	51.3	50.7	

GENERAL TELEPHONE CORPPORATION

BUSINESS: Through subsidiaries, company operates the second largest telephone system in the U. S., serving, without competition, more than 3,600 communities in 19 states. The system includes a telephone equipment manufacturing unit, a telephone supply company, and a directory publishing company.

OUTLOOK: The General Telephone System is by far the largest group of independent telephone companies in the country, operating close to 18% of the total 'phones in service ouside the Bell System with which it is interconnected for the handling of domestic and foreign toll service. Its record is one of constant growth that has kept pace with the expansion of industry and population in the areas served, including fast growing sections of the Northwest, California and Texas. Accelerating the rate of growth has been the absorption into the System of other independent telephone companies by acquisition which, together with increased telephone service demands, have expanded operating revenues by nearly 100% in the last five years. Within that time the System telephone companies expended for gross additions to telephone plant close to $275 million, increasing valuation to $372 million, an increase of 140% over that at the beginning of 1948. While demand upon facilities has necessitated this increase in telephone plant, the operating companies have worked to increase plant efficiency. At the end of 1952 approximately 70% of telephones in service were dial operated. An increasing volume of toll calls will require construction of additional toll plants and facilities which are already being planned, permitting handling of additional business and the realization of more of the advantages possible through operator toll dialing. To meet the greater demand for telephone equipment by both the System and other independents, manufacturing facilities are being expanded to increase output of telephone instruments. Within the last seven years General's System has increased from approximately 700,000 telephones in service to more than 1.5 million and should continue to increase at a comparable rate with the growth of the nation.

DIVIDENDS: Has paid dividends on its common stock continuously since 1939. The present rate of distribution is 55 cents a share quarterly.

MARKET ACTION: Recent price of 39½, compares with a 1952-53 price range of High—40, Low—29¾. At current price the yield is 5.5%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1942	1952 (000 omitted)	Change
ASSETS			
Cash & Marketable Securities	$ 7,074	$ 22,900	+$ 15,826
Receivables, Net	2,168	12,927	+ 10,759
Materials & Supplies	3,394	18,786	+ 15,392
TOTAL CURRENT ASSETS	12,636	54,613	+ 41,977
Plant & Equipment	105,659	368,908	+ 263,249
Intangibles	....	4,869	+ 4,869
Investments	1,658	1,328	— 330
Other Assets	3,963	8,703	+ 4,740
TOTAL ASSETS	$123,916	$438,421	+$314,505
LIABILITIES			
TOTAL CURRENT LIABILITIES	$ 8,184	$ 41,157	+$ 32,973
Other Liabilities	2,013	056	— 1,957
Reserve for Depreciation	21,808	64,544	+ 42,736
Other Reserves	149	352	+ 203
Long Term Debt	41,938	162,997	+ 121,059
Preferred Stock	8,782	19,301	+ 10,519
Subs. Preferred Stock	15,701	64,983	+ 49,282
Common Stock	12,741	47,814	+ 35,073
Surplus	12,600	37,217	+ 24,617
TOTAL LIABILITIES	$123,916	$438,421	+$314,505
WORKING CAPITAL	$ 4,452	$ 13,456	+$ 9,004
CURRENT RATIO	1.5	1.3	— .2

CHARLES PFIZER & CO., INC.

BUSINESS: With a background of 100 years as a manufacturer of fine chemicals, the company through diversification has expanded production and achieved marked success as a producer of vitamins, pharmaceuticals, animal feed supplements, and the development and production of an ever increasing line of antibiotics.

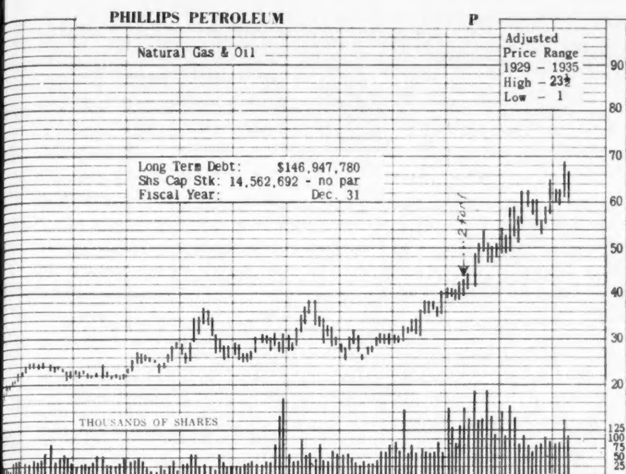
OUTLOOK: Within the last three years Pfizer's net sales increased from $47.5 million to the record 1952 figure of $107 million. In the earlier year—1949—output was sold to manufacturers who processed most of it into consumer products under their own labels. The company had few foreign markets. Since then it has diversified its geographical markets to the extent that foreign markets now account for about 25% of total sales, and its products are now sold under the Pfizer label through channels that have increased manyfold. Outstanding in its achievements has been the development of Terramycin which has assumed a leading position in the wide-range antibiotic market with salts, since its introduction in 1950, climbing steadily month by month. Through research, Pfizer is continuing the development of other antibiotics. One of the more recent products to be introduced is Permapen, a long-acting and stable form of penicillin. Another is Magnamycin rated to be particularly effective in the treatment of infections caused by such organisms as staphylococci. To these antibiotics, the company has added Viocin and Streptohydrazid, an anti-tubercular specialty. All these promise to accelerate the Antibiotic Division's growth especially in view of the great possibilities they possess as supplementary animal feeds and their growth-promoting effects on plants. Sales of old-line medicinal chemicals continue to increase. Research objectives are the development of new products, the more recent of which is Glucatase for use in the preservation of foods, while a number of other promising products are under study in the laboratories, all of which points to continued growth of Pfizer's operations and sales well into the future.

DIVIDENDS: Present company and its immediate predecessor have paid dividends in each year since 1925. The current rate of payment is 25 cents a share quarterly.

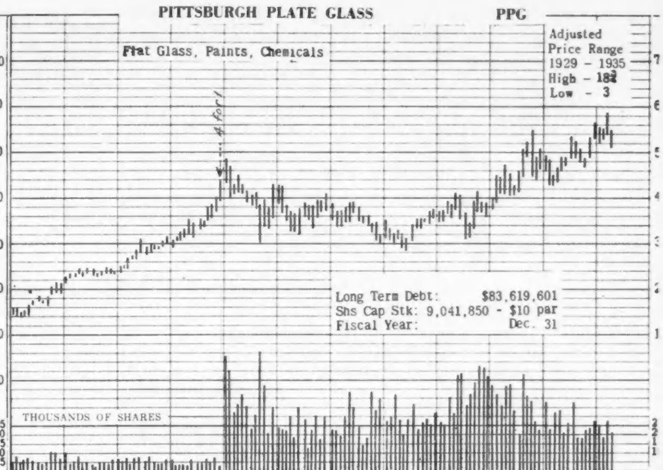
MARKET ACTION: Recent price of 29¼, compares with a 1952-53 price range of High—42¼, Low—26¾. At current price the yield is 3.7%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1942	1952 (000 omitted)	Change
ASSETS			
Cash & Marketable Securities	$ 2,770	$ 35,226	+$ 32,456
Receivables, Net	961	12,856	+ 11,895
Inventories	4,799	28,183	+ 23,384
TOTAL CURRENT ASSETS	8,530	76,265	+ 67,735
Net Property	4,566	35,637	+ 31,071
Investments	395	985	+ 590
Other Assets	681	998	+ 317
TOTAL ASSETS	$ 14,172	$113,885	+$ 99,713
LIABILITIES			
Notes Payable	....	$ 1,496	+$ 1,496
Accounts Payable	$ 543	3,499	+ 2,956
Accruals	435	5,707	+ 5,272
Tax Reserve	2,319	14,845	+ 12,526
TOTAL CURRENT LIABILITIES	3,297	25,547	+ 22,250
Reserves	1,490	1,393	— 097
Preferred Stock	....	19,626	+ 19,626
Common Stock	500	4,944	+ 4,444
Surplus	8,885	62,375	+ 53,490
TOTAL LIABILITIES	$ 14,172	$113,885	+$ 99,713
WORKING CAPITAL	$ 5,233	$ 50,718	+$ 45,485
CURRENT RATIO	2.6	3.0	+ .4



	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953
EARN	.46	1.44	2.13	2.30	2.30	3.38	6.01	3.68	4.25	5.11	5.17	
DIV	.00	1.00	1.00	1.00	1.00	1.25	1.50	1.50	1.75	2.30	2.40	
Wkg Cap $ Mil	.6	24.4	30.7	43.3	44.5	64.2	72.8	87.3	93.6	86.1	105.2	



	1942	1943	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953
EARN	1.27	1.51	1.52	1.53	1.92	3.11	3.65	4.22	4.64	3.44	4.07	
DIV	.87½	1.00	1.06¼	1.06¼	1.20	1.70	1.75	1.75	2.50	2.00	2.00	
Wkg Cap $ Mil	44.7	52.6	56.7	61.7	54.0	57.2	65.4	84.6	93.2	86.7	117.4	

PHILLIPS PETROLEUM COMPANY

BUSINESS: This company, one of the largest and fully integrated units in the petroleum industry, is also an important producer of natural and liquefied petroleum gas and one of the foremost companies in the field of petrochemistry.

OUTLOOK: As far back as two decades or more Phillips began laying the foundation for growth. Since 1946, the first postwar year, gross income has increased from $222 million to a record of $723 million in 1952 which, incidentally was more than $112 million greater than in 1951. Net income increased from $22.6 million to another 1952 record high of $75.2 million and shareholders' equity grew from $248 million to $613 million. In attaining this growth Phillips, in the seven years, brought into its business about $851 million, of whch $230.5 million was through retained earnings. Recently, it issued $162 million in S. F. Debentures, largely to prepay bank loans and to repay before March of next year drilling program bank loans, and to increase general funds. The company's growth is along three different but related avenues —petroleum producing and refining, natural gas production and manufacture of liquefied petroleum gases, and the production, through petrochemistry, of such materials as agriculture fertilizers, synthetic rubber, furnace black, cyclohexane, vinylpyradine and other chemicals for various types of synthetic fibers, sulphur for fertilizers and chemical processing, ammonia, and its derivatives. Production of these products is in increasing quantities and to meet growing demands, new facilities are being constructed which will also permit the manufacture of a still wider variey of petrochemicals. The scope of its natural gas business can be gauged by the more than 2 billion cubic feet per day processed or consumed in company operations and delivered to outside companies in 1952. Within the next two years, it is estimated that an additional 718 million cubic feet daily will be taken by outside purchasers, with the oil business growing apace, giving the company the status of a growth company within a growth industry.

DIVIDENDS: Larger dividends have been paid in each of the last four years, the most recent increase bringing the quarterly rate up to 65 cents a share.

MARKET ACTION: Recent price of 57½, compares with a 1952-53 price range of High—69½, Low—48½. At current price the yield is 4.1%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1942	1952 (000 omitted)	Change
ASSETS			
Cash & Marketable Securities	$ 20,278	$ 69,410	+$ 49,132
Receivables, Net	12,923	61,178	+ 48,255
Inventories	26,176	92,198	+ 66,022
TOTAL CURRENT ASSETS	59,377	222,786	+ 163,409
Net Property	187,160	675,953	+ 488,793
Investments	6,495	8,799	+ 2,304
Other Assets	4,301	15,398	+ 11,097
TOTAL ASSETS	$257,333	$922,936	+$665,603
LIABILITIES			
Current Debt Mat.	$ 1,772	$ 25,280	+$ 25,508
Accounts Payable	9,220	57,696	+ 48,476
Accruals	3,228	2,941	— 287
Tax Reserve	11,526	31,648	+ 20,122
TOTAL CURRENT LIABILITIES	25,746	117,565	+ 91,817
Other Liabilities	7,079	4.652	— 2,427
Reserves	4,912	9,876	+ 4,964
Long Term Debt	32,325	177,391	+ 145,066
Common Stock	134,532	293,309	+ 158,777
Surplus	52,739	320,143	+ 267,404
TOTAL LIABILITIES	$257,333	$922,936	+$665,603
WORKING CAPITAL	$ 33,631	$105,221	+$ 71,590
CURRENT RATIO	2.3	1.9	— .4

PITTSBURGH PLATE GLASS COMPANY

BUSINESS: This company is one of the largest manufacturers of all types of glass; is one of the foremost producers of paints, lacquers, enamels and special coatings, natural and synthetic bristle brushes for painting and cleaning, and through a wholly-owned subsidiary manufactures chemicals for the paper, textile, plastics, and other industries. It is also licensed to produce fiber glass in yarns, strands and other forms.

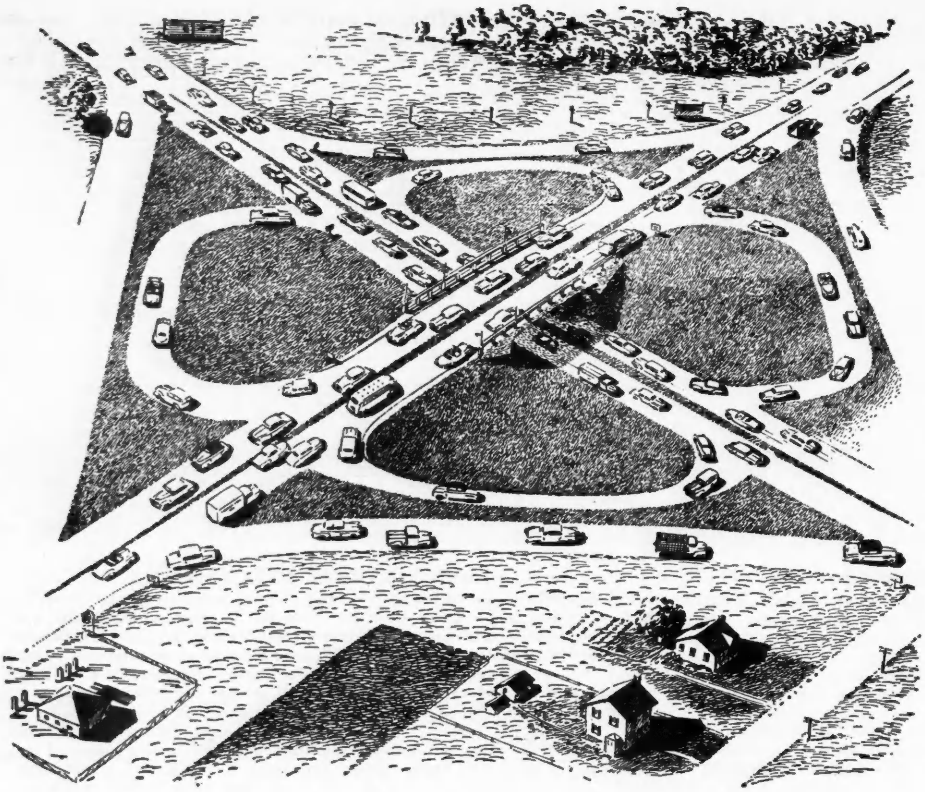
OUTLOOK: A good index to the growth possibilities of Pittsburgh Plate Glass is the company's expenditures of close to $100 million in the last three years on property additions and replacements required to supply customers' needs. Supplementing this is the growth in net sales in the 7 years to the end of 1952 from $184 million to $404 million in 1951, and $402 million last year. From a small beginning 70 years ago it now operates four plate glass plants, a double-glazed "Twindow" fabricating plant, 3 window glass plants, 15 paint and special product plants, 4 brush plants, a fiber glass plant, a deep coal mine and 5 chemical plants. Its 278 branches and sales offices, representing one of the most efficient distributing systems, extends from coast to coast. Supporting this physical set-up are the company's research and development programs out of which have come many of the major advances in its various manufacturing fields and hold the promise of newer products and further growth in the years to come. New and improved products flow from the research laboratories in such numbers that space limitations prohibit individual mention. These include paints, coatings for containers, cloth, medicinal tapes and other articles; improved bent, flat and special automotive and aircraft glasses, including "Solex" heat-absorbing glass. All of these were products of 1952, to which is now added "Twindoweld," the first all-glass double-glazed insulating window, without bonding materials. In the chemical division emphasis on developments in organic chemicals is extending the market for basic products, all of which widens the prospecs for this growth-company.

DIVIDENDS: Has paid dividends without interruption for 55 years. Payments in 1952 totaled $2.00 a share, including a year-end distribution of 95 cents a share.

MARKET ACTION: Recent price of 52¾, compares with a 1952-53 price range of High—58⅝, Low—42¾. At current price, yield on basis of $2.00 annual dividend, is 3.7%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1942	1952 (000 omitted)	Change
ASSETS			
Cash	$ 13,871	$ 23,177	+$ 9,306
Marketable Securities	11,109	60,809	+ 49,700
Receivables, Net	8,396	37,393	+ 28,997
Inventories	25,650	83,621	+ 57,971
TOTAL CURRENT ASSETS	59,026	205,000	+ 145,974
Net Property	64,040	190,648	+ 126,608
Investments	11,339	17,826	+ 6,487
Other Assets	2,141	12,766	+ 10,625
TOTAL ASSETS	$136,546	$426,240	+$289,694
LIABILITIES			
Notes Payable	$ 018	$ 12,016	+$ 11,998
Accounts Payable	2,730	13,988	+ 11,258
Accruals	1,274	13,992	+ 12,718
Tax Reserve	10,303	47,590	+ 37,287
TOTAL CURRENT LIABILITIES	14,325	87,586	+ 73,261
Non-current Liabilities	267	73,943	+ 73,676
Reserves	8,913	36,783	+ 27,870
Capital Stock	55,218	90,444	+ 55,226
Surplus	57,823	137,484	+ 79,661
TOTAL LIABILITIES	$136,546	$426,240	+$289,694
WORKING CAPITAL	$ 44,701	$117,414	+$ 72,713
CURRENT RATIO	4.1	2.3	— 1.8



ROAD BUILDERS
In Strong Position

By EDWIN A. BARNES

Few industries are in such an enviable position, so far as future prospects are concerned, as road building, including the cement companies and other concerns engaged in production of the various types of equipment needed to build the nations' highways.

Contracts for highway construction scheduled so far this year by the various states will exceed $2¼ billion. This is 34 per cent more than 1952's all-time record high of $1.6 million. The 1953 schedules involve $1,570 million for construction of freeways, and $658 million for the building of toll roads. Most of the latter sum wil be expended by just three states —New York budgeting $230 million for toll roads, Ohio $220 million, and New Jersey $100 million. Road maintenance contracts scheduled for this year will add $531 million more to the 1953 total, bringing it to $2,760,862,000.

About 21 per cent of this total will be spent for road building equipment—power shovels, graders, bulldozers, rippers and other equipment. Labor costs will take about 24 per cent, and approximately 50 per cent wil go toward buying cement, asphalt, steel, stone and lumber. The work will require thousands of tons of reinforcing and structural steel and huge quantities of cement. Some state highway departments are worrying about a possible shortage of steel, particularly structural forms and entertain some fear that they may run into a moderate cement shortage which may continue for some time.

Although 1953 road building schedules call for a record sum, that total is insignificant when weighed against the pressing need for more and better roads. Authorities are practically in accord that it will require expenditures of from 5 to 7 billion dollars annually for the next 15 years to construct needed highways, to modernize existing roads, and to keep the entire highway system abreast of an expanding volume of motor vehicle traffic.

A Nation on Wheels

In less than 20 years, the number of passenger car registrations in the United States has more than doubled, increasing from about 20.5 million in 1933, to approximately 45 million today. Truck registrations have gone from 3.5 million to more than 8.5 million, and the number of registered busses has more than tripled, increasing from 45,000 to 143,000. The United States is a nation on wheels. Close to 50 per cent of the nation's workers depend on automobiles to transport them to and from their jobs. School buses, station wagons and other types of vehicles carry about 6½ million school children every day, and practically everything needed for every-day living for a population of 159 million is transported for some distance, more or less, by one or more of the huge fleet of trucks rolling over the highways night and day.

Most of these roads were designed when passenger car speeds rarely exceeded 30 miles an hour, when the comparatively few trucks then in use carried light loads and the total volume of automobile travel was small. Highway conditions as they exist today are causing the needless death of thousands of men, women and children annually in automobile accidents. It is estimated that traffic accidents are causing an economic loss in excess of $3.5 billion every year. Poor roads, according to the New York Good Roads Association, have been costing the people of New York state more than $570 million a year in

increased freight rates, bus rates, automobile upkeep, gasoline mileage, accidents and insurance rates.

The Department of Public Works of New York state, in a road survey completed in 1950, revealed that New York's existing highway system "just wasn't up to the increasing demands upon it." Of the 14,321 miles of state highways, 5,996 were listed as being over 20 years old, 6,872 miles were less than 18 feet wide, 7,164 miles were deficient structurally, 5,405 miles were deficient in service, and the balance was "just plain dangerous." The survey deals with conditions as they were three years ago. Motor vehicle registration in the state has since increased by more than a half million. While some relief has been gained from new parkways and expressways through and around some metropolitan areas, the need to bring the highway and road systems up-to-date still exists. To do this, New York's Department of Public Works reports that to rehabilitate rural state highways, county roads, urban arterial highways, town roads, and widen existing and construct new state parkways will require expenditures of about $2.7 billion over the next ten years. This is exclusive of expenditures for thruways construction in the state.

Highway conditions in other states throughout the nation are not much different. Some idea of general conditions can be had from the statement by the U. S. Bureau of Public Roads, that at the present rate of disintegration "only 56 per cent of the high-type roads now in use will be in usable shape in six years." This statement, in the nature of a warning, points up the need for accelerated highway construction as an integral part of the defense effort. Motor vehicle transportation played an important part in bringing World War II to a successful conclusion. Passenger cars and trucks provided a flexibility of movement of both men and materials in and out of war plants. Then the roads were more adequate than at present. Many of them are worn out and certainly most, constructed in what might well be termed the "horse and buggy" days cannot carry the load and allow motor vehicles to move at a reasonable and economic speed,

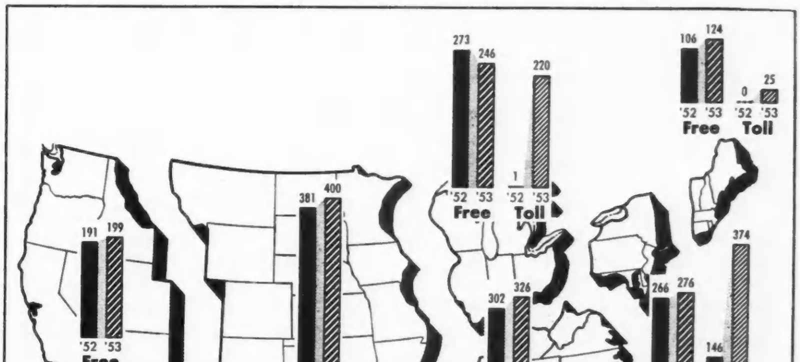
Projects Under Way

Authorities are agreed that it is essential to modernize our highway system to cope with today's traffic volume. State legislatures all over the country are giving the need for more and better roads in their respective territories close attention. A number of highway projects are in the planning stage or under consideration. Less than two weeks ago, Connecticut's Governor Lodge signed into law a bill authorizing construction of the Fairfield County Thruway and its extension across the eastern part of the state to the Rhode Island line. The bill provides for the issuance of bonds for the construction of the 125-mile road which is expected to cost about $213 million. These bonds will be backed by state gasoline receipts and serviced out of tolls on the road.

The state of Florida has authorized construction at Fort Lauderdale of a $19 million toll tunnel and bridge to relieve south Florida beach traffic congestion. A causeway and bridge is being built across Tampa Bay as a toll project, and waiting approval is the plan to construct a $225 million turnpike from Jacksonville on down to Miami, with a tie-in with a cross-state branch to Tampa and the Gulf of Mexico.

Other highway projects are expected to be announced shortly by state highway commissions. In Idaho, a special commission has reported that a cross-Iowa super-highway, to cost about $141 million, could pay for itself. Down in Alabama, as a result of the success, financially, of the toll tunnel under the Mobile River at Mobile, talk is heard of a 200-mile toll road between Mobile and Birmingham. The resurgence of toll roads is being sparked by the public's willingness to pay for the privilege of travelling over highways that will enable them to get to their destinations and back at reasonable speed and in safety. A good illustration of this in the use to which motorists have put the New Jersey Turnpike. In building that highway, engineers estimated average use during the first year would be at a rate of 23,000 vehicles daily, which meant a balance of comparatively light winter against heavy summer traffic. By early 1952, average usage was 35,000 vehicles daily, which in less than a month later climbed to 46,000 vehicles a day. Nevertheless, state legislatures are studying ways and means of financing road construction through gas tax increases and higher ton-mile levies on trucking.

In some circles, toll roads are not considered a panacea for all highway ills. The public does want better roads, however, and in their impatience to get them, is not only willing, but happy to pay the fee exacted at the toll road gate. Moreover, the public is becoming increasingly conscious of the fact that most states have been hampered by restrictions on highway bond issues, opposition to tax increases, as well as laws which prevent the use of adequate roadbuilding funds where traffic is



1953 highway construction budgets, in millions of dollars

heaviest. This awakening may spur creation of more tolerable conditions under which state highway commissions can operate, encouraging them in the belief that a more effective and much intensified public education program on the need for improved highways will obtain the support necessary for increased roadbuilding apropriations.

Need for Road-Building Equipment

No matter what type of road, toll or free, is built this year, and the next and the one beyond that, a great array of roadbuilding equipment, and tons of steel, together with huge quantities of cement and other materials are going to be required to do the job. Cement manufacturers, which in 1952 had total production of more than 251 million barrels of cement, an increase of 81.5 million barrels since 1946, appear to be again facing another record year. As already stated, there is a moot question as to whether there will be enough cement to satisfy demand, not only for highway construction, but for the needs of housing and other types of buildings.

Prominent among the cement manufacturers are producers like Alpha Portland Cement, General Portland Cement, Lehigh Portland Cement and Lone Star Cement. None of these companies has funded debt nor preferred stock. All of them have good earnings records, and with the exception of General Portland Cement formed in 1947 as a consolidation of several smaller producers, have paid dividends without interruption for the past 17 to 19 years. Dividend coverage, particularly in late years, has been by a wide margin. For example, Alpha Portland, after paying $3.00 a share in dividends last year, was able to retain a little more than $1 million for reinvestment in its business. General Portland, which also paid dividends totaling $3.00 a share put back $1.7 million, while Lehigh Portland, paying $1.20 a share, retained $3.5 million for growth of the company, which amount is comparable with sums retained in each of the last five years. Lone Star, after paying out $1.65 in dividends in 1952, matched Lehigh by putting $3.5 million of the year's net back into the business.

Road building programs are going to need all types of equipment, a demand which should be particularly of benefit to manufacturers of earth moving machinery, graders, scrapers, crawler tractors and bulldozers. This is of particular interest to such companies as Caterpillar Tractor, Bucyrus-Erie and Allis-Chalmers. In the vanguard of this group is Caterpilar Tractor because of its broad output of such equipment. Although not comparable to Caterpillar from the standpoint of sales volume, Bucyrus-Erie Co., ranks well up in the list as a manufacturer of power shovels, mobile cranes, scrapers, rippers, bulldozers and other excavating, earthmoving and driling equipment. Allis-Chalmers has a diversified line of products used in agriculture, mining, electric utility and other industries and also produces equipment used by cement manufacturers and such items as motor scrapers, tractor-drawn scrapers,

In addition to other products used in general construction, public works and various industries, Blaw-Knox Co., produces a line of varied equipment used in road construction. These include concrete finishing machines, concrete paving spreaders, subgraders, concrete buckets, black top and concrete road pavers, as well as steel forms for concrete construction. The company recently strengthened its position in this field by developing a new paving machine for low-cost concrete construction of secondary roads and a new small black-top paver for driveways and narrow highway construction.

Other equipment that will be needed by the road builders will be air compressors, pneumatic rippers and drills. Companies that should benefit from demand for such equipment are Ingersoll Rand, Chicago Pneumatic Tool and the Gardner Denver Co.

Indications are that work on highways and roads will proceed at a faster pace this year than was possible in 1952 and 1951. Steel shortages last year and the year before held road construction to a snail's pace in many instances, and in others forced complete abandonment of construction pending the time when steel would be in more liberal supply. Prospects of an improved steel situation are now in the offing. In contrast to a meager 126,000 tons allocated for highway use in the first six months of 1952, the U. S. Bureau of Public Roads, acting as the claimant agency for the various state and local agencies, has been allotted 300,631 tons of structural steel for the first two quarters of this year. This is an increase of 137.5 per cent over allocations in the corresponding periods of 1952. The improved steel supply, together with the greater amount of funds now available from toll road bond issues and other revenue sources, should permit stepping up the tempo of highway work, making the outlook for highway construction brighter than it has been in more than a decade.

On the basis of this outlook it would be within the bounds of conservatism to regard the amount of road building scheduled for this year alone to be of boom proportions. When weighed, however, against the total needs of the nation for adequate highways, the amount involved is but a fraction of that to be spent in the decade to come, with resultant benefits to makers of road building equipment and materials.

Leading Companies in Road Building Equipment and Materials

	1952 Net Sales (Millions)	Sales per Com. Share	1952 Per Share Net	1952 Dividend Per Share	1952-53 Price Range	Recent Price	Yield*
Alpha Portland Cement	$ 25.3	$ 42.85	$ 4.74	$ 3.00	52¼-36¼	51	5.8%
General Port. Cement	29.4	28.30	4.71	3.00	54½-34⅛	52	5.7
Lehigh Portland Cement	53.6	28.20	3.07	1.20	34 -21⅞	29⅜	4.0
Lone Star Cement	80.9[1]	28.45	3.19	1.65	34¼-23½	33⅛	4.6
MACHINERY							
Allis-Chalmers	513.6	173.20	7.98	4.00	61⅝-46¼	54¾	7.3
Blaw-Knox	170.1	120.93	2.97	1.25	22¼-15⅞	21	5.9
Bucyrus Erie	78.5	50.51	3.12	2.00	28⅝-22½	27½	7.2
Caterpillar Tractor	477.5	125.05	5.52	3.00	66 -47¼	60½	4.9
Chicago Pneumatic Tool	54.8	125.53	11.18	4.00	62¾-45¼	55½	7.2
Gardner Denver	34.0	51.85	4.07	1.85	28½-22½	26¼	7.0
Ingersoll Rand	161.0	80.18	10.08	6.00	101 -81	94½	6.3

*—Based on 1952 dividend. 1—Before freight, discounts and other allowances.

Advice to a . . . . .

Man About To Retire

By RICHARD COLSTON

Not infrequently, we receive letters from subscribers that are of extraordinary human interest. One of these we reproduce in the accompanying box. It deals with the problem of a man well along in middle life, who wants to retire and solicits our opinion as to whether his financial position is strong enough to warrant his taking this important step. We take this welcome opportunity of answering his letter and suggest to interested readers that before noting our reply, they acquaint themselves with the details of this man's financial circumstances which in many ways are typical. We trust that our analysis and recommendation will be found of value. For obvious reasons, we have concealed the individual's identity. (Editor's Note)

It will be noted that total income from all sources is about $12,750 annually, obtained (a) $9,000 earnings, presumably through employment, (2) $2,600 from dividends and (c) about $1,150 from a real estate "equity".

Total net income, after income taxes, would be in the neighborhood of $10,000, or about $850 a month. From this sum, the writer now provides for the living of his wife and self.

He now wishes to retire (or believes he should on account of his health), and in doing so believes he will have to reduce living costs to $350 a month. Assuming that this couple have deeply considered the implications of such a radical change in living conditions, the problem is to decide whether the specified income of $350 a month is in truth available and can be depended on regularly. This entails analysis of his present holdings and the income is derived therefrom.

Bearing in mind that on retirement annual earnings will disappear entirely, the individual must consequently rely entirely on steady receipt of about $4200 a year in order to provide the needed $350 a month. Let us see whether this is possible.

It may be assumed, as given in the letter, that some $95 a month will continue to be provided for some years from the real estate holding, and later from social security. This leaves about $250 a month still to be obtained. However, only about $215 a month is being secured presently from the stock holdings, so that there is a deficit of about $35 a month in terms of estimated monthly needs. Since the present common stock equity of about $41,000 is already providing the high return of over 6% on current market values, it is difficult to see how (*Please turn to page* 352)

Editor, The Magazine of Wall Street:

1. I am now earning $9,000; want to resign and retire; indifferent health; age 56.

2. Dividend income now approximately $2,600 annually from the following:
   - x 210 shares Standard Oil of California
   - x 25 " Union Pacific Railroad
   - x 202 " Celanese Corporation
   - x 100 " Southern Pacific Railway Co.
   - x 50 " Ohio Oil Co.
   - 119 " Northern States Power Co.
   - x 31 " Pacific Telephone & Telegraph
   - x 50 " Texas Gulf Sulphur
   - x 30 " Union Oil (California)
   - 40 " Caterpillar Tractor
   - 50 " North American Aviation

   x Almost all of the above stock was bought in the late 30's so that any recommended switch-outs would entail terrific capital gains tax.

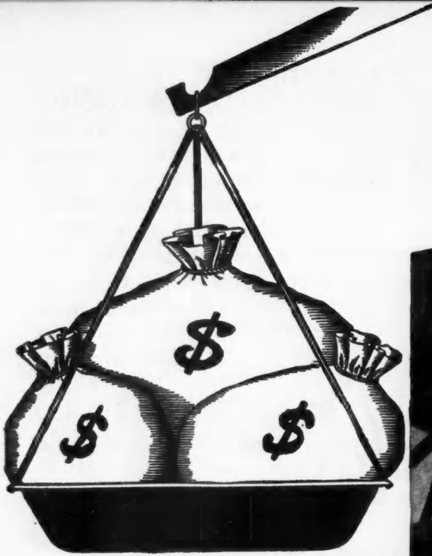
3. Supplementary income: $96.34 monthly on First Deed of Trust from a residential real estate sale on 20-year pay-out. Well secured, but these things are not saleable at reasonable discount. Terminates in 1966, by which time (1962) I will have replaced the amount with Social Security approximately same amount (including wife).

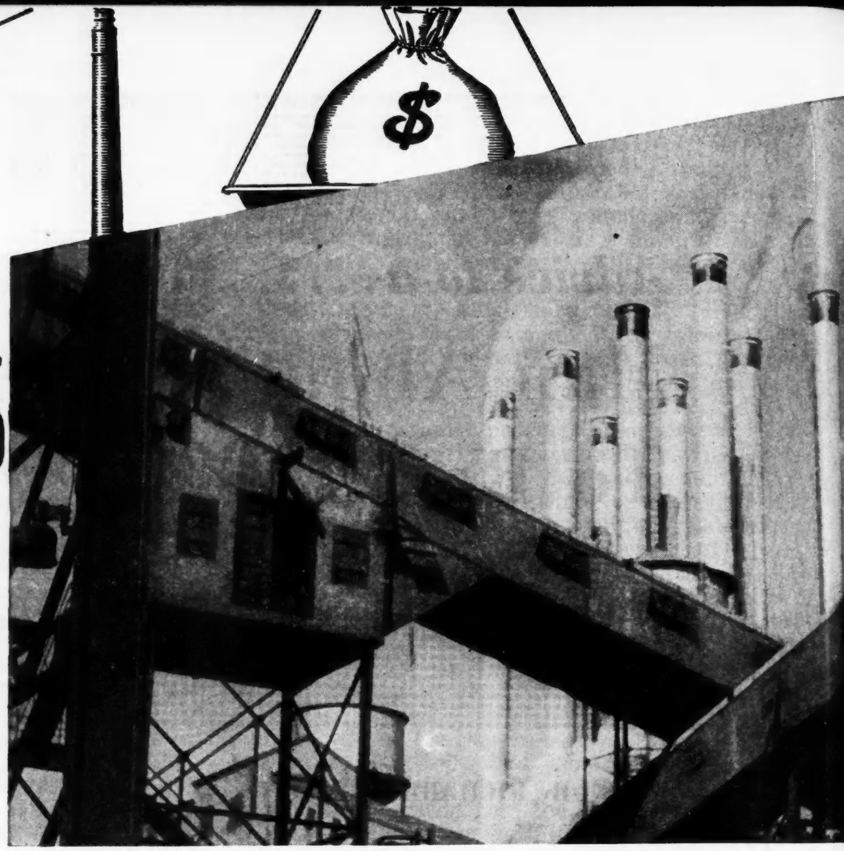
4. Situation: No dependents; and my wife and I have no need or wish to leave any estate; therefor a gradual encroachment on the capital, in later years, is permissible.

5. Retirement requirements: About $350.00 per month, but must first purchase or build small home involving estimated $20,000.

6. QUESTION: Am I justified, financially, in retiring now?

-- E.F.J., California





STOCKS IN A DOUBTFUL POSITION

By H. F. TRAVIS

The general upward tendency in corporate earnings for the first three months of the year, thus far continued into the second quarter, has obscured the fact that a considerable number of corporations have not kept pace.

Stockholders in companies whose earnings have not compared favorably with the majority of issues are naturally concerned over the relatively poor showing as this creates some doubt with regard to dividends. A surprising number of stocks are now in this doubtful class. Supporting this conclusion is the fact that in the first three months of this year, 118 companies lowered their dividend payments, indicating that a number are experiencing difficulty in maintaining dividend disbursements at previously established rates.

When it is considered that many of these companies have been falling behind for several years, it is obvious that doubt as to future earnings and dividends is further intensified by the current unsatisfactory showing. As we have pointed out in recent issues of The Magazine, pressure on marginal companies and those in industries that are unfavorably situated has increased considerably, and the number of companies experiencing this pressure has grown to sizable proportions.

As long ago as the June 14 issue, 1952, under the caption "Stocks Where Margin Between Earnings & Dividends is Narrowing," we called attention to companies that reduced dividends in the first five months of that year owing to lower profits. In the March 7, 1953, issue of The Magazine, we published a list of 13 issues with narrowing dividend margins. In the article, titled "Stocks in a Doubtful Position," we pointed out that "investors must pay greater attention to the narrowing gap between earnings and dividends as revealed in many recent company reports." Again, in the May 2, 1953, issue of The Magazine, under the title, "20 Stocks in Marginal Companies" we presented a list with declining profit margins, saying, at the time, marginal companies, as is true of other classes, must be appraised on the basis of individual standing and performance.

In this issue, we are again indicating some potentially weak stocks, presenting a list of 13 companies which appear in a doubtful dividend position. It is our belief that in publishing articles along these lines we are performing a useful function in calling the attention of investors to those issues the earnings of which presage a possible reduction in the dividend rate or the elimination of distributions sooner or later.

We list herewith 13 companies making up the current group, embodying essential facts on earnings and dividends for the last three years, together with brief comment. We believe that the value of the accompanying compilation will be enhanced by a more detailed analysis of several conspicuous situations:

American Locomotive Co., despite the fact that labor troubles struck three of its plants in the final quarter of last year was able to show net earnings for the 12 months equal to more than twice annual dividend requirements. However, several factors point to diminishing earning power, creating considerable uncertainty regarding maintenance of current dividend, confirmation of which is seen in the yield of 8.4% on the current price of the shares. In the first

quarter, the company earned only 3 cents a share. As of March 31, last, the company's backlog totaling $516 million consisted of about $82 million for regular products and $434 million in defense orders, principally tanks. This latter business is likely to be sharply reduced shortly under the Defense Department's recent decision to modify its tank building program. With domestic locomotive demand obviously over the peak, American Locomotive is apparently spurred to greater activity to diversify operations. It recently increased its common stock from 1,783,832 to 2,500,000 shares in order to give management greater flexibility in acquiring other properties. To further strengthen its position in this regard, it may find it expedient to conserve cash, a possibility that may affect the dividend rate.

Felt & Tarrant Manufacturing Co., which must be regarded as a secondary company in the business machine field has an erratic earnings record, illustrated by net per share rising from 81 cents in 1950, to $2.63 in 1951, and then falling to 76 cents a share in 1952. Although it has developed a strong position in its field principally through its trademarked "Comptometer," it looks to foreign sales, now tending to taper off, for a substantial portion of its business. At the same time, it is encountering keener competition from both foreign and domestic manufacturers introducing new electrically and electronic operated calculators and other types of accounting equipment in the market. Because of its strong finances, the current dividend could be maintained for a period even though net earnings should fall below requirements, but the market position of the stock at this time reflects an unfavorable consensus of opinion as to the stability of dividends and the speculative appeal of the shares as well.

13 Stocks with Lower Earnings

	Net Per Share 1950	Div. Per Share 1950	Net Per Share 1951	Div. Per Share 1951	Net Per Share 1952	Div. Per Share 1952	Net Per Share 1953 1st Q.	Recent Price[4]	Yield	COMMENTS
American Locomotive	$2.78	$1.50	$3.16	$1.40	$2.84	$1.40	$0.03	17	8.3%	Lower 1952 and first quarter 1953 net reflects effects of labor troubles. Will probably show some improvement but stock lacks speculative appeal and dividend rate is uncertain.
Anaconda Copper	5.38	3.00	5.79	3.50	4.62	3.50	0.93	38	9.0	Approaching completion of $300 million expansinn program should bolster strong basic position. Sufficient coverage for regular dividend looked for, but reasonable doubt justified over year-end extra.
Archer-Daniels-Midland[1]	5.71	2.40	6.58	2.80	4.51	2.80	1.96[2]	39	7.0	Profit margins likely to continue under pressure. Expansion in chemical field may eventually help stabilize earnings. Slight modification of dividend rate possible.
Barker Bros.	4.15	2.00	2.30	2.00	1.63	1.50	0.19	16	9.3	Disappointing first quarter earnings dulls outlook for improvement over 1952 per share net which barely covered dividend needs.
Butler Bros.	2.21	0.60	1.31	0.75	0.76	0.75	(d)0.01	13	11.5	May be able to show some improvement by further developing retail activities. This may require a little time, pending which dividend rate might be lessened.
Collins & Aikman	3.04	0.25	5.46	1.15	1.95	1.60	......	19	8.4	Higher automobile output, plus operating economies might help earnings. Outlook, however, not too bright and present dividend rate might undergo some paring.
Felt & Tarrant	0.81	0.80	2.63	2.00	0.76	0.80	0.26	11	7.2	Outlook lacking in signs of betterment in foreign business. High operating costs have placed squeeze on profit margins, creating uncertainty as to maintenance of dividends at current rate.
Mesta Machine	5.60	3.50	3.81	3.50	2.71	2.50	n.a.	34	7.6	While replacement orders should hold at satisfactory level, profit margins, under pressure of higher costs, are likely to recede, justifying reduction in amount of dividend distribution.
Mergenthaler Linotype	8.01	5.00	4.26	2.65	3.41	2.50	1.60[3]	28	8.9	Earnings in recent years aided by payment of arrears, now completed, by British affiliate. Profit margins have narrowed and further recession possible, creating uncertainty over present dividend rate.
Merritt-Chapman & Scott	6.00	3.00	4.21	1.70	2.72	2.00	0.17	23	8.7	Has good backlog of business, but increased operating costs likely to hold down net, diluted by recent share offering. Modification of present dividend rate possible.
Quaker State Oil	3.33	2.00	2.32	2.00	2.01	2.00	0.57	24	8.3	Doubtful that competitive conditions will permit any major gain in 1953 net over last year's which barely covered dividend needs. Uncertainty regarding current dividend rate justified.
Underwood Corp.	6.71	4.00	6.77	4.00	5.00	4.00	0.68	46	8.7	1952 net aided by $1.77 a share tax credit. Competition putting pressure on sales. Recent acquisition may strengthen position in electronic computers. Extra dividend this year doubtful.
Walworth Co.	1.27	0.65	1.75	0.90	1.21	0.55	0.14	8	7.0	Sales decline reflects slackened demand and price cutting by some competitors squeezing profit margins. Disappointing first quarter apparently delaying dividend action so far this year.

(d)—Deficit.
1—Years ended June 30th.
2—9 mos. to March 31st.
3—6 mos. to March 31st.
4—Fractions eliminated—shown at nearest round figure.

FOR PROFIT AND INCOME

Seasonal

This is the season for another look at "the usual seasonal summer rise." Figured from the May closing level to the high of July or of August, there has been one in 18 out of the last 20 years, and in 47 years over the 56-year history of the Dow industrial average. Including the 9 exceptions, gains for the whole period averaged 9.5%. They have been largest usually on rebounds from deeply depressed levels: for instance, 72.1% in 1932 and 35.8% in 1938. They have also been large in years of active speculation: for instance, 29.1% in 1929. But they have been below average in recent years, with high taxes discouraging short-term speculation. The average summer rise in the uptrend years 1942-1945 was 5.3%, with the largest of that period 8.5% from a low base in 1942. Two of the 9 failures in 56 years occurred in the postwar years 1946 and 1950. The largest postwar summer rise was 10.9% in 1947. The average for the bull-market years 1949-1952 was 5.9%. On a net full-month basis, there have been almost as many June declines as advances; but nearly twice as many July gains as declines, and nearly three times as many August gains as declines. The May close is a known factor; the right time to sell in July or August is a guess. The conclusion, which we have stated before and repeat, is: It does not pay to speculate for a summer rise.

Building Capital

You have practically no chance to get rich quick by buying one or more common stocks. But all past experience proves that you can build capital slowly, surely and impressively over the years by common stock investment on a systematic dollar-averaging plan. It works this way: You invest a fixed sum of savings, say $1,000, in a reasonably diversified list of stocks each year. The build up results doubly from (1) the cumulative investment of your own savings; and (2) the cumulative reinvestment of the savings (undistributed earnings) of the corporations whose stocks you buy. The results depend on (1) the amount invested each year; (2) the selection of stocks; and (3) sticking with the plan for a long-term period. The high risk of fallible judgment on market timing is eliminated. Prices paid will average out well in the long run, since a fixed sum each year will buy more shares at low than at high prices.

The Record

If you had started this plan even at the high 1929 prices, at $1,000 a year, in stocks moving in line with the Dow-Jones industrial average, your stock holdings would now be worth around $50,000. If you had applied it to a reasonably diversified list of established growth stocks—of the type of du Pont, General Electric, American Cynamid, Minneapolis-Honeywell, Phillips Petroleum, Union Carbide, etc.—you would have fared about three times better than in the 30 Dow industrials. Although fortunes can in theory be made in infant growth companies, the chances are that

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1953	1952
Atlas Powder Co.	Mar. 31 Quar.	$ .94	$ .66
Commercial Solvents Corp.	Mar. 31 Quar.	.19	.07
Mohawk Carpet Mills	Mar. 31 Quar.	1.54	.63
Southern Railway	Mar. 31 Quar.	5.52	2.94
Cincinnati Milling Machine	12 Weeks Mar. 21	3.32	1.65
Denver & Rio Grande West.	Mar. 31 Quar.	6.07	3.22
Western Union Telegraph	Mar. 31 Quar.	1.58	.86
Bell Aircraft Corp.	Mar. 31 Quar.	.98	.42
Admiral Corp.	Mar. 31 Quar.	1.56	.77
Sunbeam Corp.	Mar. 31 Quar.	.98	.68

mistaken selections will at least balance the profitable ones, even in a diversified list. And you cannot get much diversification, excepting over a long period, with an annual investment of as little as, say, $1,000.

A One-Stock Plan

A dollar-averaging savings-investment plan will work out well even if it is built around a single stock, provided the selection is intelligently made; and is perhaps the most practical plan for investors interested in a building program requiring commitment of relatively small annual sums. Adequate diversification is simply a matter of spreading the risk sufficiently. That does not depend directly on the number of stocks held. If you buy 20 speculative stocks your over-all risk is not significantly less than if you buy one. On the other hand, if you buy the stock of one strong, broad-based company, which serves many industries, you get the equivalent of adequate diversification. You get that, plus a favorable long-pull growth trend, for example, in Union Carbide or duPont. Dollar-averaging in either since 1929 would have worked out roughly twice as well as in the 30 Dow industrials. Sun Oil would also be a good choice for a one-stock dollar averaging plan, because of this company's policy of plowing back the great bulk of its earnings, paying only small cash dividends and rewarding stockholders with frequent sizable stock dividends. True, this is a one-industry investment, but the oil industry is essential and more stable than most. Attainable dollar-averaging results in this stock since 1929 have been more than three times those in the 30 Dow industrials.

Blow Off

If the bull market begun in mid-1949 ended at last January's and December's highs for the Dow industrial and rail averages, respectively, it ended without the typical past blow-off speculation in low-priced stocks which was seen prior to the 1946, 1937 and 1929 tops. But there is nothing sacred about precedent. This has been more of an investment-dominated bull market than any past one. The best relative performance of the "cats and dogs" in it was seen as far back as the autumn of 1951, and it was tepid compared with those prior to all past major tops. It has long seemed likely that this bull market would die by fading out unspectacularly, without a speculative blowoff. Those who have long been hung up in inferior stocks and are waiting hopefully for a strong speculative revival to take them off the hook might just about as well hope that lightning will strike a designated tree.

Foolish

Many people hold one or more "dead" stocks, bought far above present prices as far back as 1928-1929, 1936-1937 or 1945-1946. They hate to sell because that would be formal, final admission of bad judgment. It is a foolish and costly policy. The untaken loss is nevertheless a fact. The capital is tied up and is unproductive. The loss can always get bigger from any price above zero. The loss itself has a cash value for tax purposes, either as an offset to capital gains or a deduction against taxable income up to $1,000 a year. And the salvaged capital can be shifted to stocks with a better chance for profit or a better yield or both.

DECREASES SHOWN IN RECENT EARNINGS REPORTS

		1953	1952
Island Creek Coal	Mar. 31 Quar.	$ .28	$1.20
Georgia-Pacific Plywood	Mar. 31 Quar.	.25	.51
Newport Industries	Mar. 31 Quar.	.22	.42
Amer. Zinc, Lead & Smelt.	Mar. 31 Quar.	.54	1.29
American Locomotive Co.	Mar. 31 Quar.	.03	.91
Collins & Aikman	Year Feb. 28	1.93	5.40
Lion Oil Co.	Mar. 31 Quar.	.92	1.24
Felt & Tarrant Mfg. Co.	Mar. 31 Quar.	.26	.38
Delaware & Hudson Co.	Mar. 31 Quar.	2.33	2.79
Hudson Bay Min. & Smelt	Mar. 31 Quar.	1.22	1.59

Here are a few examples of stocks in which hopes for recouping losses appear slimly founded: Chicasha Cotton Oil, M. & M. Woodworking, Alaska Juneau Gold Mining, Amalgamated Leather, American Ice, Hecla Mining, Hayes Manufacturing, Holland Furnace, Irving Air Chute, Krueger Brewing, National Bellas Hess, Phillips Packing, Sieberling Rubber and Trans-Lux Corp.

Rayon

If any one had said a few years ago that rayon would be a sick industry by 1953, affected by over-capacity and inroads of newer synthetic fibers, he would have been thought crazy. If anyone had said that profit trends, for efficient producers, in 1953 would be more favorable in cotton textiles than in rayon, he would have been rated even crazier. But so it is. The once prized American Viscose stock is down from high of 78 to 44; the once high-flying, highly-leveraged Celanese from high of 58¼ to 25. Both are ably managed, financially strong companies, but recovery prospects for the stocks within the presently foreseeable future are not bright.

EPT

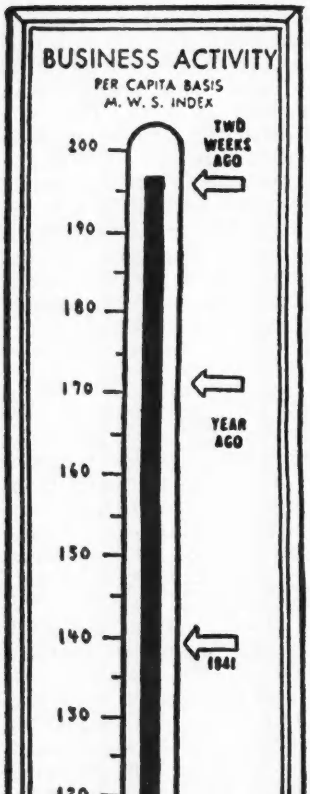
Unless company reports for the first quarter or the first half state how taxes were handled, reported results can differ markedly from actual results. If a company applied the present law, since it calls for expiration of EPT on June 30, it would accrue EPT at half the full-year 1952 rate, or 15% against 30%. If it accrued EPT at the full-year rate, that assumed extension of the levy for six months—an assumption very few thought well-founded when the first-quarter reports were being prepared. In the first instance, extension of EPT would mean restatement of interim profits on a lower basis. In the second, expiration of the levy June 30 would mean restatement of profits at a higher level. Few reports revealed which alternative was applied. General Electric was an exception, reporting first-quarter net of $1.59 a share on a half-year EPT accrual, with an explanation that it would be $1.16, which is more than 26% less, if EPT should be extended through the full year.

(*Continued on page* 352)

What's Ahead for Business?

By E. K. A.

The transition from sellers' markets to buyers' markets, considered close at hand several times in the postwar years, now appears to be here in actuality. Regardless of whether the trend of general industrial activity is upwards, sidewise, or downwards, the majority of products henceforth will have to be "sold". For numerous industries, not prepared as yet for the transition, this presents real problems.



To no inconsiderable extent, selling and salesmanship have become lost arts during the past dozen years or so. Many so-called salesmen actually are no more than order takers, whose principal function in recent years has been to "allocate" limited quantities of merchandise to customers with historical buying records. The return of competition and the necessity of finding new customers has severely restricted the value of this type of "salesman".

It is a moot question whether any great percentage of these order takers, so long accustomed to soft and easy waiting for customers to come to them, can be retrained to get out and really sell. Recent surveys indicate that industry itself is of two minds on this subject. A number of corporations, aware of the prospect of increasing difficulty in moving their products, have been increasing their sales forces in recent months although otherwise keeping their sales organizations intact.

Even though it frequently is recognized that this is not the most efficient method of stimulating sales and that the new salesmen all too often adopt the worst practices of the older salesmen, the shortage of manpower is given as the reason for not making a much-needed wholesale reorganization of the sales force and selling methods. On the other hand, the manpower shortage has not deterred some corporations from wholesale shakeups in preparation for the more difficult times ahead.

There are, unfortunately, numerous sales managers and salesmen who do not even seem to know what is meant by "selling". Illustrative of this is the present situation in new automobile retailing, one of the areas in which salesmen really have become soft. When business slows down a little, the principal inducement offered a prospective customer who comes into the salesroom under his own steam is a price concession, a practice almost unheard of before the war and which tends in many instances to convince the prospect that there must be something wrong with that make of car.

Before the war, a telephone call to a retailer would bring a salesman around for a demonstration at your convenience. Somehow, the word got around that you were in the market for a new car and, before long, you would be deluged with calls from competitors, often going so far as offering to take the entire family out for a Sunday afternoon drive. With the entire pack of salesmen on your tail, you either had to buy a new car or move out of town where you could not be found. The automobile industry rose to its eminent position in the United States through just this type of salesmanship, but this seems to have been forgotten.

In the reorganization of their sales forces, corporations are giving recognition to the necessity of adopting methods of sales management. In the modern market, it is contended that goods cannot be sold until an "idea" has first been sold through some type or multiple types of promotion. Such considerations include the idea of labor-saving, increased convenience, reduced costs of operation, better opportunities for children, improved social status, etc. Household appliances, suburban housing, home insulation, and men's hats are readily recognizable in these idea categories. In some instances, trade organizations play an important role in selling the idea.

Individual salesmen are not left on their own to devise sales techniques and strategy, in this modern concept. These are the responsibility of the sales manager and, above him, the management itself. Salesmen, well selected and trained, are considered as the final link in a carefully planned program. Their success is dependent to a large extent upon how well the way has been paved for them through the selling of ideas by management. If management has done its job well and the salesmen's training is sound, salesmen will be successful, it is contended.

Sales programs and sales forces built around this modern concept would appear to be able to meet the challenge of buyers' markets.

The Business Analyst

HIGHLIGHTS

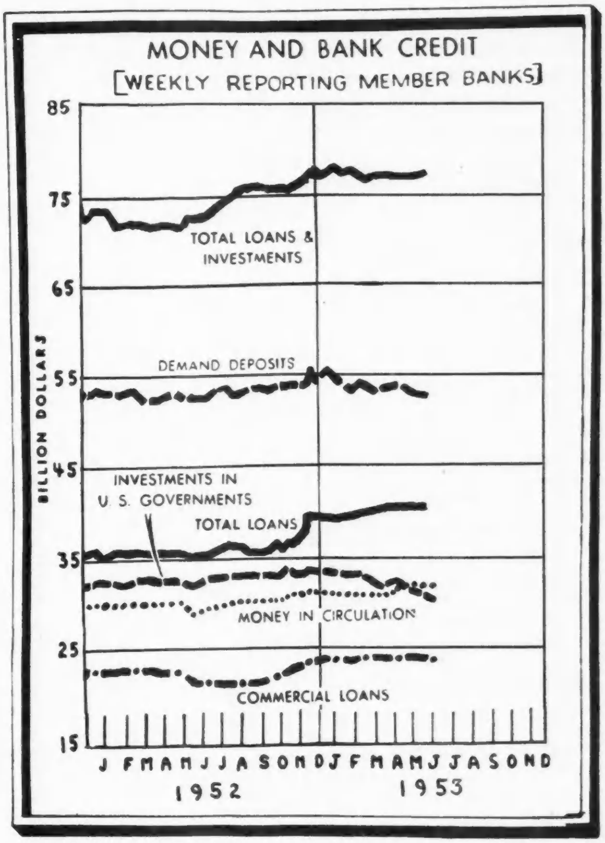
MONEY & CREDIT—Long-term Treasury bonds have weakened again and in the two weeks ending May 29 some substantial declines were witnessed and new lows reached. The bank—ineligible 2½s of 1972-1967 lost 1 1/16 during the period to close at 90¾ and the new thirty-year 3¼s fell ¾ point to 99¼. At this level the yield of the latter to maturity was 3.29%. Surprisingly, corporate bonds did not experience much liquidation in the period under review and the yield on an average of best-rated bonds stood at 3.35% on May 29, unchanged from two weeks earlier. One reason for the weakness of Government obligations is the realization that the cash needs of the Treasury for the second half of this year will be close to $9 billion, exclusive of funds that will be needed to pay holders of maturing obligations who refuse to accept exchange offers. This can become a headache as will be seen from the results of the recent refunding of $4,960,000,000 of certificates due June 1 and $725,-000,000 of 2% bonds maturing June 15. The Treasury's exchange offer of a one-year certificate yielding 2⅝% did not prove especially tempting and 16% or about $900,000,000 had to be paid off in cash. If attrition on this scale is to be the fate of the billions in Government debt falling due this year, then the Treasury will have to raise substantial extra sums to cover this drain.

The Treasury has been actively looking for money in the past few weeks, all of the short-term variety, to meet current expenses. It has increased its offerings of three-month bills to $1.5 billion per week and this will bring in $1.6 billion of new money by July. It is also offering $800 million of 107-day tax-anticipation bills to mature September 18 and is considering whether to increase rates on Savings bonds to make them more palatable. The Federal Reserve has been doing its bit to make the raising of short-term money less arduous by purchasing $157 million of Treasury bills in the three weeks ending May 27, thus giving the banks greater purchasing power by swelling their reserves. In the face of heavy demands for funds, however, this assistance has failed to stem the rise in short-term yields and the Treasury has had to pay 2.416%, at annual rates for its latest 91-day bill offer, the highest rate for this class of bills in twenty years.

Tax-exempt bonds have not been immune from liquidation and the Bond Buyer's yield index of municipals rose to 2.81% at the end of May, the fifth weekly increase in a row. The Public Housing Authorities which offered $122.5 million of bonds on May 26 found they had to pay an average of 2.82% to borrow on tax-exempt, federally secured, obligations. This compares with a net interest cost of 2.396% for the previous offering of this type of bond on January 21.

TRADE—Retail trade is still running well above a year ago and for the week ending Wednesday, May 26, Dun & Bradstreet estimates the increase over the corresponding 1952 week at about 4%. The Southwest states achieved the best results with a 6% rise for the period. Apparel buying was stronger throughout the nation and household goods reflected increased demand, with air-conditioning equipment a feature.

April retail sales after seasonal adjustment totalled $14.37



billion, virtually unchanged from March and 7% above April, 1952. Automotive sales at $2.82 billion continued to make the best showing, topping last year by 22%. Durable goods stores in April were 15% ahead of last year while non-durable goods stores gained only 3%.

INDUSTRY—Industrial output has stabilized at close to record highs and the Federal Reserve Board estimates that in May its seasonally adjusted index of output stood at 242% of the 1935-1939 average. This is unchanged from April results and only one point under the post-war record of 243 set in March. The stability of the index in recent months follows the eight-month rise from a low of 193 in July, 1952, which culminated in March. Production of household goods was slightly lower in April, although 42% above a year ago.

COMMODITIES—The general run of commodities were little changed in the week ending May 26, despite weakness in

(Please turn to the following page)

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
MILITARY EXPENDITURES—$b (e)	Apr.	4.3	4.3	4.0	1.55
Cumulative from mid-1940	Apr.	500.4	496.1	449.1	13.8
FEDERAL GROSS DEBT—$b	May 26	265.2	265.8	259.6	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	May 20	53.1	53.3	52.9	26.1
Currency in Circulation	May 27	29.8	29.8	28.7	10.7
BANK CLEARINGS					
New York City—$b	May 23	9.3	8.4	8.9	3.8
111 Other Centers—$b	May 23	9.6	9.4	8.9	4.0
PERSONAL INCOMES—$b (cd2)	Mar.	282.5	280.9	261.9	102
Salaries and Wages	Mar.	190	188	174	66
Proprietors' Incomes	Mar.	53	53	51	23
Interest and Dividends	Mar.	22	22	21	10
Transfer Payments	Mar.	14	13	12	3
(INCOME FROM AGRICULTURE)	Mar.	20	20	19	10
POPULATION—m (e) (cb)	Apr.	159.1	158.9	156.4	133.8
Non-Institutional, Age 14 & Over	Apr.	111.3	111.2	109.3	101.8
Civilian Labor Force	Apr.	62.8	63.1	61.7	55.6
unemployed	Apr.	1.6	1.7	1.6	3.8
Employed	Apr.	61.2	61.5	60.1	51.8
In Agriculture	Apr.	6.1	5.7	6.4	8.0
Non-Farm	Apr.	55.2	55.7	53.7	43.2
At Work	Apr.	59.1	59.5	58.0	43.8
Weekly Hours	Apr.	42.0	41.6	41.8	42.0
Man-Hours Weekly—b	Apr.	2.48	2.48	2.42	1.82
EMPLOYEES, Non-Farm—m (lb)	Apr.	48.8	48.6	47.4	37.5
Government	Apr.	6.6	6.6	6.6	4.8
Factory	Apr.	13.8	13.8	12.9	11.7
Weekly Hours	Apr.	40.8	41.1	39.8	40.4
Hourly Wage (cents)	Apr.	175.0	175.0	165.0	77.3
Weekly Wage ($)	Apr.	71.40	71.93	65.67	21.33
PRICES—Wholesale (lb2)	May 26	109.8	109.9	111.6	66.9
Retail (cd)	Mar.	208.2	207.8	208.7	116.2
COST OF LIVING (lb3)	Apr.	113.7	113.6	112.9	65.9
Food	Apr.	111.5	111.7	113.9	64.9
Clothing	Apr.	104.6	104.7	106.0	59.5
Rent	Apr.	122.1	121.7	116.9	89.7
RETAIL TRADE—$b**					
Retail Store Sales (cd)	Apr.	14.4	14.4	13.4	4.7
Durable Goods	Apr.	5.2	5.2	4.5	1.1
Non-Durable Goods	Apr.	9.2	9.2	8.9	3.6
Dep't Store Sales (mrb)	Apr.	0.81	0.86	0.78	0.34
Consumer Credit, End Mo. (rb2)	Apr.	26.2	25.7	20.9	9.0
MANUFACTURERS'					
New Orders—$b (cd) Total **	Apr.	26.0	24.8	24.3	14.6
Durable Goods	Apr.	12.8	12.2	12.4	7.1
Non-Durable Goods	Apr.	13.2	12.6	11.8	7.5
Shipments—$b (cd)—Total**	Apr.	26.9	25.7	23.5	8.3
Durable Goods	Apr.	13.6	13.0	11.3	4.1
Non-Durable Goods	Apr.	13.3	12.6	12.2	4.2
BUSINESS INVENTORIES, End Mo.**					
Total—$b (cd)	Mar.	75.2	74.9	73.6	28.6
Manufacturers'	Mar.	43.8	43.8	43.2	16.4
Wholesalers'	Mar.	10.2	10.1	10.1	4.1
Retailers'	Mar.	21.2	21.0	20.3	8.1
Dept. Store Stocks (mrb)	Mar.	2.4	2.4	2.3	1.1
BUSINESS ACTIVITY—1—pc	May 23	197.2	196.0	171.8	141.8
(M. W. S.)—1—np	May 23	240.6	239.2	204.5	146.5

PRESENT POSITION AND OUTLOOK

some sensitive items. The price index of the Bureau of Labor Statistics lost 0.1% during the week to close at 109.8% of the 1947-1949 average. Farm products declined 0.9% because of lower levels for cattle and grains. Meats rose 1.4%, spurred by higher pork prices. The index of all commodities other than farm products and foods was 0.2% lower, largely on reduced prices for tin, scrap iron and manufactured animal feeds.

New orders for **MACHINE TOOLS** dropped sharply in April and the index of new orders compiled by the National Machine Tool Builders Association fell to 277.0% of the 1945-1947 average from 323.3% in March. This is the first interruption to the upward trend in new orders which began in December, 1952. Machine tool shipments were relatively steady in April at 373.1% of the base period against 375.7% the month before. The production rate set a new high in April of 406.7% of the 1945-1947 average. At current production rates it would have taken 8.1 months to complete unfilled orders on the books. This compares with an 8.5 month ratio in March and one of 14.8 months in April, 1952.

* * *

The number of **BUSINESS FAILURES** declined 6% in April after expanding in the three previous months. The failure rate as reflected by Dun's failure index which is seasonally adjusted, fell to 28 casualties for each 10,000 enterprises listed by Dun & Bradstreet. This compares with a rate of 30 in March and 32 in April, 1952. The 693 firms that failed in April had **LIABILITIES** of $27.5 million, an 11% drop from March. For the first four months of 1953, liabilities of failing firms totalled $109.2 million, still above the $104.4 million liabilities of the corresponding 1952 period. For the January through April period every division of industry except commercial services showed an increase over a year ago in the liabilities of failing firms. The largest rise was suffered by retailers where liabilities rose 42% to 36.1 million.

* * *

EXPORTS of merchandise from the United States in March were valued at $1,377.8 million, up from $1,195.9 million for the short February month, but under the $1,446.9 million of goods exported a year ago, the Census Bureau has announced. The export figures include mili-

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
INDUSTRIAL PROD.—1 np (rb)**	Apr.	242	243	216	174
Mining	Apr.	162	162	166	133
Durable Goods Mfr.	Apr.	327	328	277	220
Non-Durable Goods Mfr.	Apr.	198	201	183	151
CARLOADINGS—t—Total	May 23	770	780	762	833
Misc. Freight	May 23	380	387	370	379
Mdse. L. C. L.	May 23	69	70	71	156
Grain	May 23	44	41	41	43
ELEC. POWER Output (Kw.H.) m	May 23	8,013	7,959	7,146	3,267
SOFT COAL, Prod. (st) m	May 23	8.8	9.1	8.9	10.8
Cumulative from Jan. 1	May 23	175.3	166.5	201.9	44.6
Stocks, End Mo.	Mar.	70.2	71.4	77.3	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	May 23	6.4	6.4	5	4.1
Gasoline Stocks	May 23	154	152	122	86
Fuel Oil Stocks	May 23	41	40	39	94
Heating Oil Stocks	May 23	67	65	51	55
LUMBER, Prod.—(bd. ft.) m	May 23	258	257	229	632
Stocks, End Mo. (bd. ft.) b	Mar.	8.2	8.2	8.2	7.9
STEEL INGOT PROD. (st) m	Apr.	9.5	10.2	8.0	94
Cumulative from Jan. 1	Apr.	38.5	29.0	35.2	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	May 28	291	258	308	94
Cumulative from Jan. 1	May 28	6,654	6,375	5,642	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	May 23	204	204	165	165
Cigarettes, Domestic Sales—b	Apr.	32	35	32	17
Do., Cigars—m	Apr.	520	502	492	543
Do., Manufactured Tobacco (lbs.)m	Apr.	19	17	18	28

PRESENT POSITION AND OUTLOOK

tary shipments under the Mutual Security Program amounting to $328.3 million in March of this year, $272.3 million in February and $116.7 million in March, 1952. The increase in total exports in March from the month before reflected mainly increased shipments of machinery, vehicles, grains, tobacco and petroleum products. **IMPORTS** in March stood at $1,004.2 million against $856.2 million the month before. There were increased imports of iron and steel products, newsprint, raw wool, jute, crude petroleum and uncut diamonds. With March exports topping imports she **BALANCE OF TRADE** was in our favor to the extent of $373.6 million. A year ago we had a favorable balance of $483.0 million.

* * *

Domestic and foreign **COPPER PRODUCERS** delivered 142,282 tons of refined copper to U. S. consumers in April, a gain of 8,820 tons over March and the best monthly total since December's 143,083 tons, the Copper Institute has stated. Stocks of refined copper in the hands of domestic producers totalled 48,382 tons at the end of April, down 7,425 tons from the month before. Refined stocks held by foreign producers, however, rose 13,707 tons to a total of 176,974 tons on hand at the end of April.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cdlb—Commerce Dept. (1935-9—100), using Labor Bureau and other data e—Estimated. en—Engineering News-Record. I—Seasonally adjusted index (1935-9—100). lb—Labor Bureau. lb2—Labor Bureau (1947-9—100). lb3—Labor Bureau (1947-49—100). lt—Long tons. m—Millions. mpt—At mills, publishers and in transit mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, total consumer credit. st—Short tons. t—Thousands. *1941; November or week ended December 6. **—Seasonally adjusted. S—No data available because of strike.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

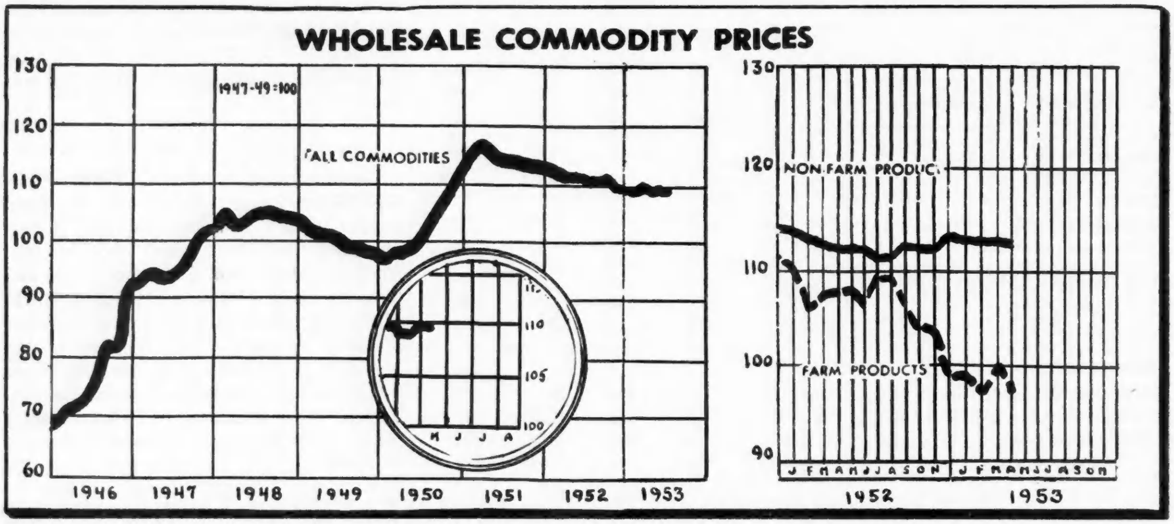
No. of Issues (1925 Cl.—100)	1953 Range High	1953 Range Low	1953 May 22	1953 May 29
300 COMBINED AVERAGE	215.5	198.8	205.9	201.6
4 Agricultural Implements	263.3	227.5	230.0	227.5Z
10 Aircraft ('27 Cl.—100)	415.6	344.5	373.0	358.8
7 Air Lines ('34 Cl.—100)	693.9	609.6	648.5	622.6
7 Amusement	95.5	85.1	90.3	87.7
10 Automobile Accessories	289.4	258.1	276.3	265.9
10 Automobiles	49.4	45.1	46.5	45.6
3 Baking ('26 Cl.—100)	28.0	23.8	27.3	27.0
3 Business Machines	377.4	348.1	351.7	348.1
2 Bus Lines ('26 Cl.—100)	182.1	170.2	178.7	178.7
6 Chemicals	396.9	361.5	377.2	365.4
3 Coal Mining	15.4	11.6	12.0	12.0
4 Communications	69.3	63.0	69.3	68.7
9 Construction	72.3	68.2	68.9	68.2
7 Containers	519.4	485.7	495.3	485.7
9 Copper & Brass	175.4	148.8	155.0	151.9
2 Dairy Products	97.7	92.3	95.0	94.1
5 Department Stores	632	59.6	60.8	60.8
5 Drugs & Toilet Articles	235.2	219.5	233.0	228.5
2 Finance Companies	410.0	362.1	382.5	370.3
7 Food Brands	200.4	192.7	198.5	194.6
2 Food Stores	120.1	113.0	118.9	118.9
3 Furnishings	79.2	70.9	73.1	70.9Z
4 Gold Mining	760.0	674.1	693.9	674.1Z

(Nov. 14, 1936, Cl.—100)	High	Low	1953 May 22	1953 May 29
100 HIGH PRICED STOCKS	133.5	123.2	127.5	124.9
100 LOW PRICED STOCKS	260.6	240.7	247.8	242.0
4 Investment Trusts	112.7	100.8	104.2	103.0
3 Liquor '27 Cl.—100)	967.8	875.6	912.5	894.0
11 Machinery	240.6	217.6	231.4	224.5
3 Mail Order	128.6	117.8	120.2	117.8Z
3 Meat Packing	101.7	92.8	97.2	94.6
10 Metals, Miscellaneous	284.5	242.7	250.6	242.7
4 Paper	474.8	434.8	448.1	439.3
24 Petroleum	463.4	413.2	436.1	422.4
22 Public Utilities	194.4	181.3	185.0	183.2
9 Radio & TV ('27 Cl.—100)	36.9	32.2	33.7	32.6
8 Railroad Equipment	64.1	59.3	64.1	62.9
20 Railroads	53.2	47.0	51.2	49.6
3 Realty	51.5	47.6	50.5	49.1
3 Shipbuilding	269.9	228.7	251.6	247.0
3 Soft Drinks	407.5	342.4	404.0	397.2
11 Steel & Iron	151.4	139.9	147.1	142.8
3 Sugar	59.8	53.8	56.8	57.4
2 Sulphur	625.9	543.3	590.5	590.5
5 Textiles	162.2	124.6	127.9	126.2
3 Tires & Rubber	89.7	77.1	79.6	77.1Z
5 Tobacco	101.6	90.8	98.9	98.0
2 Variety Stores	319.5	301.1	307.2	301.1Z
16 Unclassified ('49 Cl.—100)	125.7	113.7	117.3	113.7Z

Z—New Low for 1953.

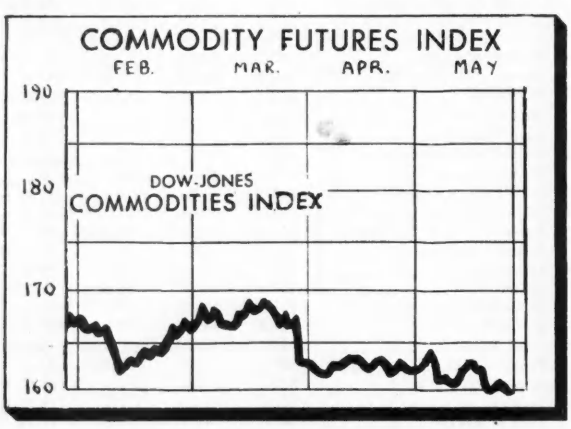
Trend of Commodities

Commodity futures were under constant pressure in the two weeks ending June 1, although the brunt of liquidation was centered on the grains, all of which reached new lows for the current season. The Dow-Jones Commodity Futures Index lost 3.89 points during the period to close at 158.53, a new low since mid-1950. September wheat declined twelve cents in the two weeks ending June 1 to close at 205¾. There is a great deal of worry among growers that this year's Government support program may be vitiated by lack of adequate storage space when the new crop is harvested, although the authorities are making strenuous efforts to augment present facilities. It is expected that the Secretary of Agriculture will ask for acreage and marketing controls on next year's crop. This would require an affirmative vote of two-thirds of the growers and failure to secure such approval would mean an automatic drop in the support level for the 1954 crop to 50% of parity. September corn lost eight cents in the period under review to close at 150½ on June 1. The Department of Agriculture estimates that the corn carryover at the end of this season—Oct. 1—will be close to 800 million bushels, or some 300 million bushels higher than a year earlier. Here again the problem of storage was a factor inducing some selling. October cotton futures were only moderately lower in the two weeks ending June 1, losing 17 points to close at 33.68 cents. At this level they were still 36 points above the year's low set in January. The CCC has announced that the loan on the 1953 crop will be 32.70 cents per pound which is equivalent to about 34 cents a pound for futures contracts.



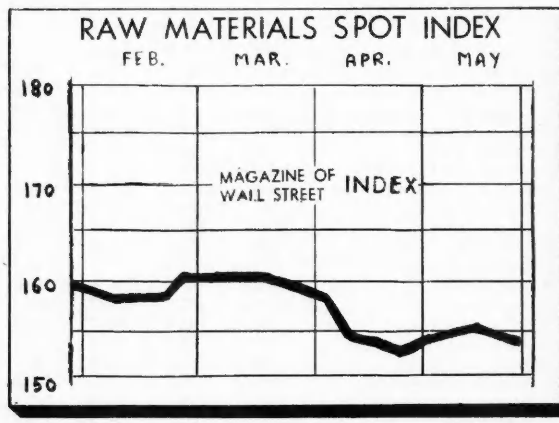
U. S. DEPARTMENT OF LABOR INDEX OF 22 BASIC COMMODITIES
Spot Market Prices—1947-1949, equals 100

	Date June 1	2 Wks. Ago	3 Mos. Ago	1 Yr. Ago	Dec. 6 1941
22 Commoiity Index	88.3	88.5	89.7	97.5	53.0
9 Foodstuffs	89.5	90.0	85.6	94.7	55.1
3 Ray Industrial	87.4	87.3	92.4	99.4	58.3
5 Metals	99.1	96.8	110.1	115.2	54.6
4 Textiles	89.6	89.7	90.5	92.7	56.3
4 Fats & Oils	57.0	59.3	57.3	66.5	55.6



Average 1924-26 equals 100

	1952-'53	1951	1950	1945	1941	1939	1938	1937
High	181.2	214.5	204.7	95.8	74.3	78.3	65.8	93.8
Low	158.5	174.8	134.2	83.6	58.7	61.6	57.5	64.7



14 Raw Materials, 1923-25 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1952-'53	1951	1950	1945	1941	1939	1938	1937
High	192.5	215.4	202.8	111.7	88.9	67.9	57.7	86.6
Low	153.1	176.4	140.8	98.6	58.2	48.9	47.3	54.6

Keeping Abreast of Industrial and Company News

A new organization, the Mathieson-Squibb Institute of Chemical Research and Engineering, has been created by **Mathieson Chemical Corp.,** its objective being the consolidation of Mathieson's rapidly expanding research and engineering functions. The new Institute has already acquired a 350-acre tract of land together with a number of excellent buildings near Shawan, Maryland, where the company's varied argricultural chemical products such as plant foods, insecticides and animal nutritional supplements will be further developed and tested.

The advent of warm weather is reported to have created a wave of orders for Dodge Coronet passenger cars equipped with **Chrysler Corp.'s** Airtemp air-conditioning units. The Dodge Division announces that the greatest number of orders have originated so far in the southern states, although a few scattered orders also have been received from several of the mid-western states.

Another major phase of **Granite City Steel Co.'s** current $68 million expansion program was completed recently when the last of 27 new coke ovens in the blast furnace department were put into operation. There are now 76 ovens capable of producing about 450,000 tons of furnace coke annually, making the department self-sufficient in coke production. The company about a month ago put into operation a new blooming mill constructed at a cost in excess of $27 million. Other major projects underway are three new 300-ton open hearth furnaces, three new slab furnaces, a new roll maintenance building, a hot strip roughing mill, and a hot strip shear line.

Directors of the **Pennsylvania Railroad** have authorized the purchase of 78 diesel-electric locomotives at a cost of approximately $13 million. These new units, when delivered will permit retirement of 109 steam locomotives. The road will then have 1,426 disel-electric locomotives, or 1,984 units, handling about 98% of passenger services, 88% of freight service, and 85% of switching service.

The U. S. Navy announces its intention to get out of the paint business, except production of those types of paint used aboard ships that cannot be produced by commercial manufacturers economically under normal conditions. The Navy's decision to rely on commercial producers for all other paints came after a private survey disclosed that although its own paints plants were "well organized" there were no important economies over purchasing from commercial paint makers when differences between accounting for tax-paying private industry and tax-free Government operation were considered.

A new process through which pulverized coat is converted in one step to synthesis gas, a mixture of carbon monoxide and hydrogen, the base of over 100 important chemicals, was the subject of a paper read recently before the American Gas Association. **Babcock & Wilcox Co.,** with 30 years experience in utilizing pulverized coal for firing large industrial boilers is said to have been an important factor in the success of this development. The first pilot plant for using the new gasifying process was built by the company for the Bureau of Mines and went into operation about two years ago. A larger size, semi-scale plant was built shortly thereafter for the **E. I. duPont deNemours Co.,** which has now placed an order with Babcock & Wilcox for a full scale plant scheduled to go into operation some time next year.

W. R. Grace & Co., which last year began construction of a $19 million nitrogen plant near Memphis, Tenn., is extending activities in the chemical field through the purchase of the Thurston Chemical Co. The latter, operating four plants in the midwest, manufactures superphosphate and mixed fertilizers and other agricultural chemicals.

Southern Railway has placed with Pullman-Standard Car Mfg. Co., a subsidiary of **Pullman, Inc.,** an order for 320 70-ton, all-steel hopper cars. Delivery of the new equipment, costing approximately $3 million, is expected to start some time in November, 1953.

Warren Petroleum Corp., plans to enter the petrochemical field. A plant, located at its gas terminal on Houston ship channel is expected to be completed early in 1954. The new plant will utilize a hydrocarbon oxidation process to convert propane or butane, or a mixture of both, into methyl alcohol, acetahldehyde, and other petrochemicals, including pentaerythritol. Officials of the company state that no additional financing is contemplated in connection with the construction of the plant.

Stockholders of **Timken-Detroit Axle Co.,** and **Standard Steel Spring Co.,** will vote on the proposed consolidation of the two companies at meetings scheduled for August 31, next. Officials of the companies believe that the new organization, to be known as Rockwell Spring & Axle Co., will have better balanced operations and a broader line of products.

If details can be worked out satisfactorily, stockholders of **Intercontinental Rubber Co.,** and Texas Instruments, Inc., will be asked to vote a merger of the two companies. The latter company and its subsidiaries are engaged in electronic instrumentation production and research, seismic oil exploration services for others, as well as in the distribution and sale of tools and mill and oil company supplies. It also engages in a small amount of secondary oil recovery work.

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Freeport Sulphur Company

"I remember that you indicated last year that Freeport Sulphur Company is a good income producing issue. Please furnish recent production, sales, earnings and progress on expansion program."

D. N., Butte, Montana

Freeport Sulphur has made substantial progress in 1952 on its $25 million expansion program to develop new production of sulphur that will materially increase the nation's supply of this important mineral.

Sulphur production, gross sales and net earnings during the year were largest in the company's history.

Gross sales rose to $38,268,895 from $34,756,810 in 1951 despite price controls on sulphur that were in effect. Net income after all charges, including depreciation, depletion and reserves for taxes, amounted to $7,325,750 or $3.05 per share on 2,400,000 shares of common stock outstanding. Earnings for 1951 were $6,308,897 or $2.63 per share. Net earnings remained unchanged from preliminary figures announced in January.

Freeport's output of approximately 1,700,000 long tons of sulphur surpassed by a considerable amount that for any previous year. The record was due to increased production at the company's Grande Ecaille mine in Louisiana.

Sulphur is essential to the production of fertilizer, chemicals, paper, steel, rubber, petroleum, explosives, rayon, paint, detergents and a wide range of other important items.

Freeport's expansion program comprises development of four new mines at salt dome deposits. Three are in the coastal marshland of Louisiana, and one is in Texas. Funds for the new facilities are being provided from earnings which have been set aside for such purposes. The first of the new marshland projects to be completed, was placed in production last November. It is unique in that it is the only all-marine operation in the sulphur industry. The mining plant, built on a huge barge and towed to the mine site, makes use for the first time of salt water in sulphur mining, an innovation regarded as having long-range significance.

The largest of the new undertakings—construction of a 500,000 ton a year plant at Garden Island Bay near the mouth of the Mississippi River – made considerable headway. This project is expected to be completed within another year.

Freeport reported that its exploration of oil and gas and development of these minerals was intensified during the year. Its most important discovery, made in association with an independent Houston oil operator, was at the Lake Washington field near the Grand Ecaille sulphur mine. Six productive wells have been drilled at this field and further drilling is in progress.

Important additional nickel reserves were developed in Cuba by the company's subsidiary, Nicaro Nickel Company, and drilling was continued on the potash deposit to which Freeport has mineral rights on Government land near Carlsbad, New Mexico.

Dividends in 1952 totalled $2.00 per share and 50 cents quarterly has been paid in the current year.

Lionel Corporation

"As a new subscriber to your magazine, I wish to take advantage of your Personal Consultation Service. Please furnish information as to principal products of Lionel Corporation, their expansion program, earnings and dividends."

F. Y., Lansing, Michigan

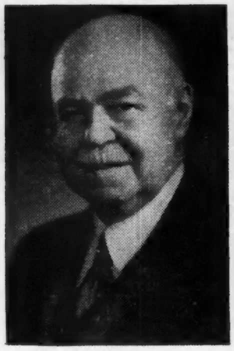
Lionel Corporation in its 53rd year of operation reported record high sales. For the first time, sales, profits and inventories of Lionel's wholly-owned subsidiaries, Airex Corporation and Airex Manufacturing Company, Inc., nation's largest manufacturers of a complete line of spinning tackle, have been consolidated in the report. During the past year, sales of Airex fishing tackle as well as Lionel products reached a new peak.

Net sales for fiscal year ended February 28, 1953, amounted to $28,159,463, with net income of $1,561,890 after taxes and all charges. Net earnings equal $2.17 per share on outstanding capital stock. Dividends per share equalled $1.25.

Net sales for the previous fiscal year ending February 29, 1952 amounted to $19,093,161 with net income of $1,398,190 after taxes and charges. Net earnings for this period amounted to $1.94 per share on the outstanding capital stock with dividends per share amounting to $1.17½.

Total unfilled train orders at May 1, 1953, plus shipments to that date are also the largest for any quarter in the company's history, amounting to approximately $22,456,000. For the year ended

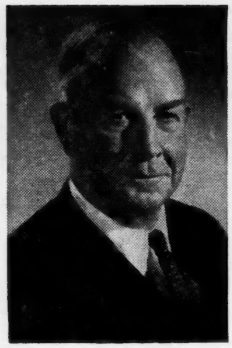
(*Please turn to page* 356)



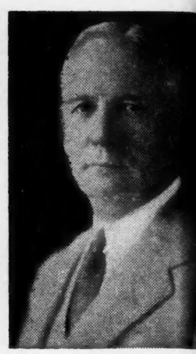
JAMES F. BELL
Chairman, Committee on Finance and Technological Progress, General Mills, Minneapolis.

LLOYD D. BRACE
President, First National Bank of Boston.

VANNEVAR BUSH
President, Carnegie Institution of Washington.



CLEO F. CRAIG
President of the American Telephone and Telegraph Company, New York.



DAVID A. CRAWFORD
Director and formerly President, Pullman, Inc., Chicago.

"The Trust You

As you used your telephone today, you probably had your mind on other things than the policy of the telephone company. But the principles that guide a business like ours directly affect your telephone service. So they are important to everyone who uses a telephone, as well as to the 1,230,000 people who share ownership of the Bell Telephone System.

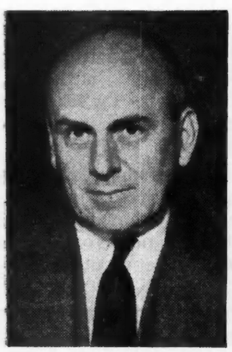
We think you will be interested in a message that was sent recently to the share owners of the American Telephone and Telegraph Company by its Board of Directors.

A message from the Board of Directors of th American Telephone and Telegraph Compan

---

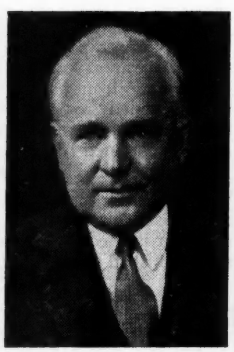
"Each of us considers that he is a trustee for th savings of every individual who has put money i the business. It is our responsibility that the Compan shall prosper.

"We are sure that to perform this duty, we mus serve the public as well as possible. The Company i a servant of the public. The services it performs ar necessary to the people of the United States. The are necessary to the building of our nation and to ou



JOHN J. McCLOY
Chairman of the Board, Chase National Bank, New York.

ARTHUR W. PAGE
Business Consultant, New York.



THOMAS I. PARKINSON
Chairman of the Board, The Equitable Life Assurance Society of the United States, New York.

ELIHU ROOT, JR.
Lawyer, New York.

TOM K. SMITH
Chairman of the Board, The Boatmen's National Bank of St. Louis.

For Profit and Income

(*Continued from page* 341)

The latter is now probable. So a good many first-quarter profit figures, if not also half-year figures, will have to be revised downward.

If

Gasoline consumption has been running about 7% above a year ago. Supplies are adequate—neither excessive nor short. There has been no general price boost since 1950, and costs have risen considerably since then. There is pressure in some sections of the industry for a gasoline price boost, opposition or hesitation in others. Socony-Vacuum tried to start the ball rolling in the East in February, but had to rescind a small price boost when competitors declined to fall in line. Recently Standard Oil (Indiana) raised its prices in the Detroit area by a decisive one cent a gallon for regular gasoline, and 1.6 cents for premium grade. If this move sticks and spreads, it can make a considerable difference in oil profits; and it would find the stocks ripe for a good rally after relatively large and protracted declines. But the "if" is a big one. Keep your fingers crossed. At best, the oil group is not likely to regain its outstanding earlier investment popularity "The bloom is off the rose"—but that is so of all major stock groups. If there is any investment vogue today, it is for new-issue bonds, especially tax-exempt municipals.

Important Elements of Conflict Between U. S. and Britain

(*Continued from page* 325)

viet world because of German and Japanese competition in free world markets and to her inability to increase sales to the United States. The conflict in policy, therefore, may well sharpen in the months to come, especially if there is a real easing of East-West tension.

The Dominions and the U. S.

Finally, the economic position of the Dominions vis-à-vis London and Washington is an ever-present source of tension. Canada, Australia and New Zealand tend to gravitate increasingly toward the United States and away from the mother country. Such issues as "imperial preference" and the convertibility of sterling, which periodically affect Anglo-American relations, are in essence only reflections of Washington's attraction on Ottawa, Canberra and Wellington and of London's efforts to counteract this economic pull. As the trend appears to be away from "empire preference" and toward convertibility, the gravitation of the Dominions toward the United States is likely to be accelerated, and with it, unfortunately, the sense of frustration in London.

A cursory survey of these Anglo-American trouble spots might lead one to the gloomy conclusion that Soviet forecasts of "inevitable conflict within the capitalist camp" are likely to come true. They are not—unless we *help* them come true. As Secretary of State John Foster Dulles recently remarked on the occasion of World Trade Week, "The free world must prove these predictions wrong. But we cannot do so if we are blind to the fact that the Communist thesis includes some valid elements. We could, by our own mistakes, make the Soviet predictions come true."

The break-up of the Anglo-American alliance is the Kremlin's No. 1 policy objective. Because if it happened the cold war would be lost by the West. Because our common defense interests vis-à-vis the Soviets transcend our economic differences, because our common heritage is stronger than our occasional suspicions of each other, the Soviet strategy is not likely to succeed. The fact that the announcement of the Bermuda meeting between Eisenhower, Churchill and the French Premier provoked an immediate angry outcry against such "collusion" in *Pravda* offers evidence of Soviet awareness of Western unity, their predictions of disunity notwithstanding. One may hope that *Pravda's* forebodings will be justified.

Advice to a Man About to Retire

(*Continued from page* 337)

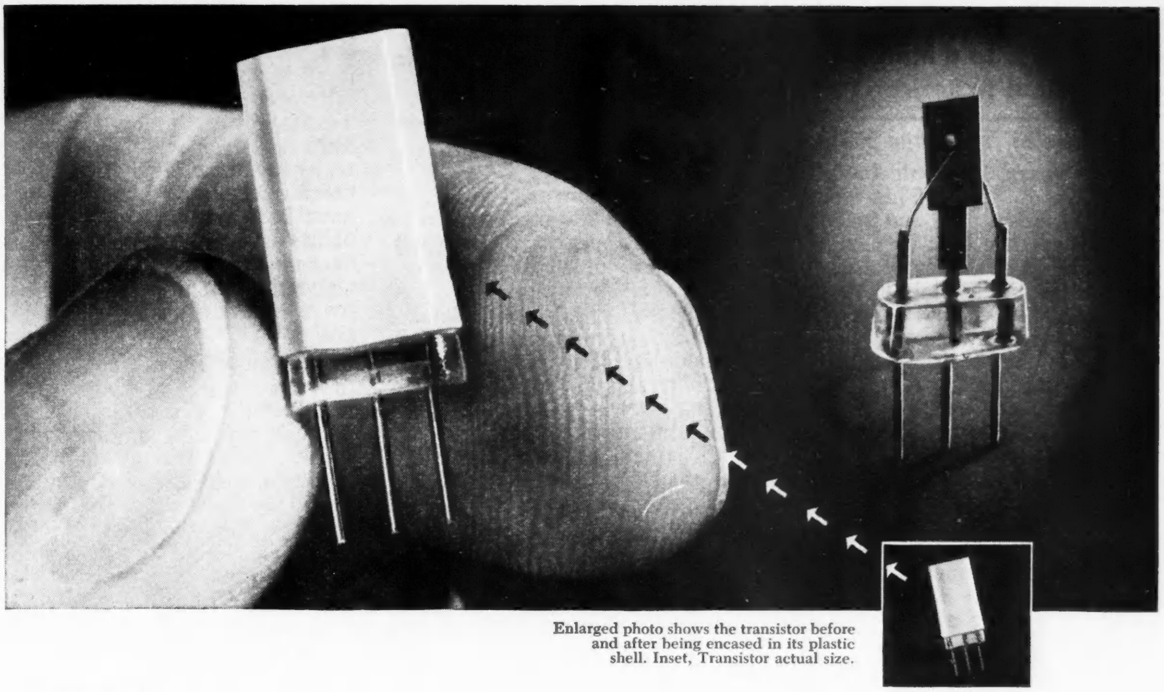
income can be increased through this form of investment without taking the added risk of entering a highly speculative field. As a matter of fact, several of these issues already held are too speculative for the purpose and should be exchanged for sounder securities of the order of American Telephone, for example.

Even if all the stocks held were of the soundest description possible, there could be no guarantee of receipt of the needed income for the indefinite number of years that retirement could imply. Assuming, however, that income from common stocks was the main means of securing the requisite income, since income from bonds would be inadequate, consideration must also be given to the question of income taxes. Unfortunately, this item cannot be ignored in estimating future income. Based on the actual income received—$1150 from real estate or social security (not taxable) and $2600 from dividends—the total income of $3750 annually would be taxed at about $500 a year for the present, or a minimum of $40 a month. In later years this amount, it is hoped, would be reduced but in any case will be a sizeable item in the budget.

It then appears that total net income would be about $270 monthly ($95 monthly from real estate or social security and $215 monthly from dividends, before taxes of $40 a month). Even if income taxes are figured too high it is clear that total income would be far below the $350 a month required.

Nothwithstanding this unsatisfactory prospect, the individual now plans on a $20,000 home to be built or bought. Presumably, this is to avoid the hazard of renting but an even more serious hazard would be encountered. In the first place, in order to build or buy a home of $20,000, an adequate down payment would be required. This might necessitate the drawing off from capital investment as much as $5,000 and this, in turn, would reduce the size of the capital from which income is received. If, say, $5,000 were drawn off to make a down payment, a reduction of approximately $300 in income would ensue, bringing dividend income down from $2600 to $2300. Furthermore, since these stocks were purchased years ago when prices were low, their sale at present prices would entail payment of a 26% capital gains tax. If his profits were as much as $10,000

(*Please turn to page* 354)



Enlarged photo shows the transistor before and after being encased in its plastic shell. Inset, Transistor actual size.

Transistor—
mighty mite of electronics

Increasingly you hear of a new electronic device — *the transistor.* Because of growing interest, RCA — a pioneer in transistor development for practical use in electronics — answers some basic questions:

Q: ***What is a transistor?***

A: The transistor consists of a particle of the metal germanium imbedded in a plastic shell about the size of a kernel of corn. It controls electrons in solids in much the same way that the electron tube handles electrons in a vacuum. But transistors are not interchangeable with tubes in the sense that a tube can be removed from a radio or television set and a transistor substituted. New circuits as well as new components are needed.

Q: ***What is germanium?***

A: Germanium, a relatively expensive metal, is one of the basic elements found in coal and certain ores. When painstakingly prepared, it has unusual electrical characteristics which enable a transistor to detect, amplify and oscillate as does an electron tube.

Q: ***What are the advantages of transistors in electronic instruments?***

A: They have no heated filament, require no warm-up, and use little power. They are rugged, shock-resistant and unaffected by dampness. They have long life. These qualities offer great opportunities for the miniaturization, simplification, and refinement of many types of electronic equipment.

Q: ***What is the present status of transistors?***

A: Four kinds of RCA transistors are being produced for commercial use. A number of other types are in various stages of development.

Q: ***How widely will the transistor be used in the future?***

A: To indicate the range of future applications, RCA scientists have demonstrated *experimental* transistorized amplifiers, phonographs, radio receivers (AM, FM, and automobile), tiny transmitters, electronic computers and a number of television circuits. Because of its physical characteristics, the transistors qualify for use in lightweight, portable instruments.

* * *

RCA scientists, research men and engineers, aided by increased laboratory facilities, have intensified their work in the field of transistors. The multiplicity of new applications in both military and commercial fields is being studied. Already the transistor gives evidence that it will greatly extend the base of the electronics art into many new fields of science, commerce and industry. Such pioneering assures finer performance from any product or service trademarked RCA and RCA Victor.

RCA ®

RADIO CORPORATION OF AMERICA

World leader in radio—first in television

Advice to a Man About to Retire

(*Continued from page* 352)

over the years, he would have to pay a tax of $2600. This would further reduce capital and income. The chances are that as a result of security sales and capital gains taxes, total capital might be reduced to $33,000-$34,000 from the present $41,000. Income consequently would be brought below $2,000, without considering income taxes, against the present $2,600.

It should be clear that whatever psychological benefits are gained from home ownership, under the conditions described, the financial drawbacks would be considerable. In that case, the peace of mind that retirement should bring would be lacking and the entire purpose thereby defeated.

On the basis of the above analysis, it would seem that the plan for retirement of the individual whose problems have been described has been without consideration of the actual risk involved. Instead of having a $350 a month income, it is probable this might be reduced to at least below $300 a month, without even considering purchase of a house. If a home were purchased, notwithstanding, annual income would be much less than required and the new burden might become too difficult to bear.

We would not advise "encroachment" on capital for a number of years. In the event the life span of this couple exceeded expectancy they might find themselves seriously depleted in resources if capital were withdrawn prematurely for living expenses. The calculation involved in encroachment on capital is based on hair-line considerations which are quite apt to be upset by unforeseeable circumstances. Liquidation of capital is a serious undertaking and can be justified only if an emergency should arise. The situation, of course, would be different if this couple were in their seventies. With life expectancy shorter at that age, encroachment on capital would be more justified.

Based on the above analysis, it would seem desirable to postpone retirement for at least several years. This would provide a better opportunity to set the financial house in order and to bring retirement objectives more in line with reality.

A Special Study of the Public Utility Industry

(*Continued from page* 330)

high of 53.88 compared with the 1949 low of 33.36—a gain of 60% in less than four years. In April the utilities joined in the general decline, but unlike the rails and in less degree the industrials, they failed to show much rallying power during May. The reasons for this slightly disappointing showing may have been (1) The very substantial amount of 'rights" financing and other common stock issues were perhaps too large for institutional buyers to absorb readily. (2) The argument has ben advanced in some quarters that since utilities are bought primarily for yield, they are vulnerable to the competition from rising yields in long-term Government bonds and preferred stocks. (3) Some pessimistic views have also been expressed regarding vulnerability of utility earnings in the event of a substantial business depression.

The utilities have apparently sought to sustain or improve the market prices of their common stocks by raising dividends—there have ben numerous increases in the past few weeks—and this has probably helped to stabilize prices. It is to be hoped that the volume of new stock offerings will be curtailed over the next few months to give the utility market a breathing spell.

Turning to the gas stocks, there have been several events in the past year which have temporarily affected the level of stock prices. The Federal Power Commission's decisions last summer in the Northern Natural Gas and Colorado Interstate Power cases caused a temporary set-back in industry morale and in plans for expansion. However, the change in Administration and the more recent membership changes in the Commission seem largely to have offset these bad effects, and it is hoped that the Commission will follow a more constructive policy in future

The Commission is now badly "bogged down" with a big backlog of requests for rate increases, as the result of rising gas prices in the field. In the past the Commission has assumed that it did not have power to regulate field prices. A very recent Supreme Court decision apparently gives it such power. It is too early to tell whether the Commission will use its power to slow the rise in field costs, or whether Congress will enact new legislation. In the meantime, many rate increases have been put into effect by gas utilities "under bond," but this is an unsatisfactory device and leaves the earnings of these utility companies in a vulnerable position.

Algonquin Pipe Line, designed to service the New England area along with Northeastern Pipe Line, has not been permitted to begin operations although construction has been virtually completed for some time. Fortunately, perhaps, the stock is not held by the public but if this $50 million enterprise were permanently denied the right to operate by the FPC and the Courts, this might shake confidence in other new pipe-line enterprises. The Pacific Northwest is the only large remaining area not served with natural gas, and there is lively competition between two or three companies to bring gas either from U. S. wells or from Canadian fields to serve this area. This issue also is before the Federal Power Commission.

In the meantime, with natural gas costs rising sharply, the manufactured gas industry (which had been rapidly disappearing or taking on a "standby" position) is staging a minor comeback. Remarkable engineering progress is reducing manufacturing costs, and the price of Bunker C oil has also been dropping. (This low-grade and low-cost oil can now be economically used in some modern oil-gas plants). Earnings of New England Gas & Electric recently showed a sharp gain as a result; this company has been a leader in improving manufactured gas efficiency. With U. S. natural gas reserves gaining more slowly than the use of gas, former predictions that manufactured gas, produced by burning coal at the mine, will eventually be transmitted to Texas by pipe line (reversing the present flow of natural gas) may not prove as wildly improbable as they once seemed.

On the whole, the natural gas stocks, particularly the distributing stocks, have behaved quite well marketwise in the face of

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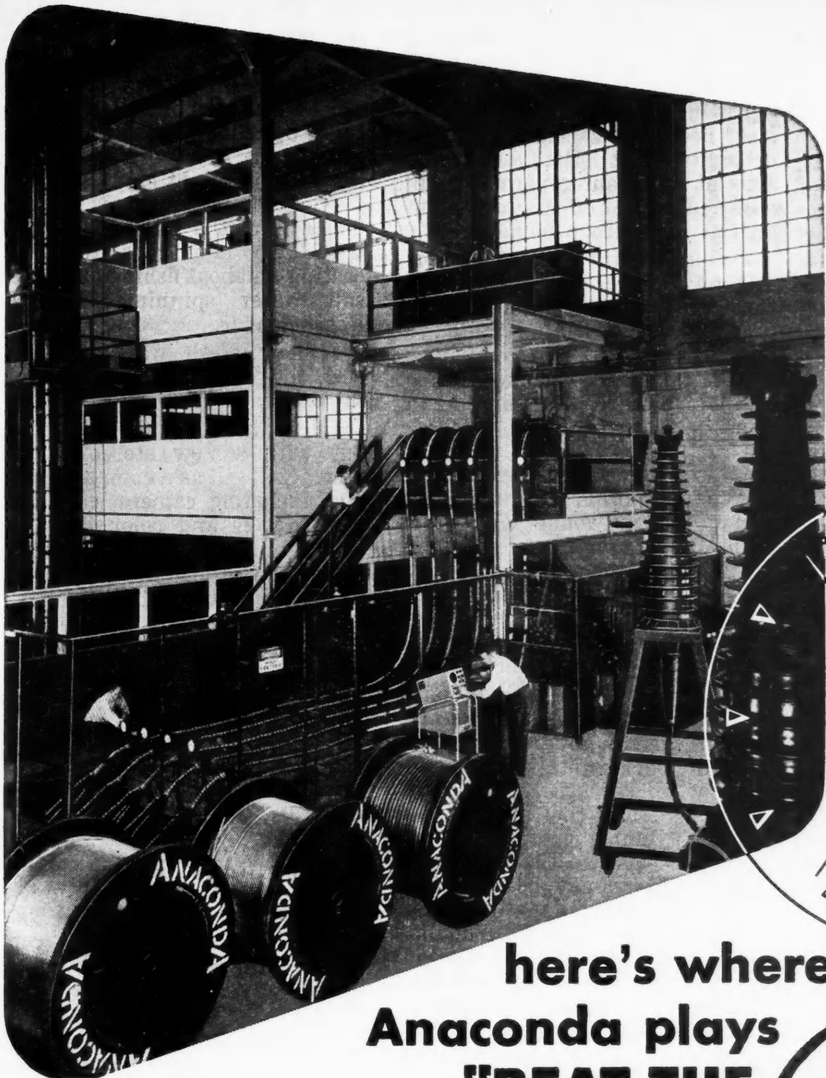

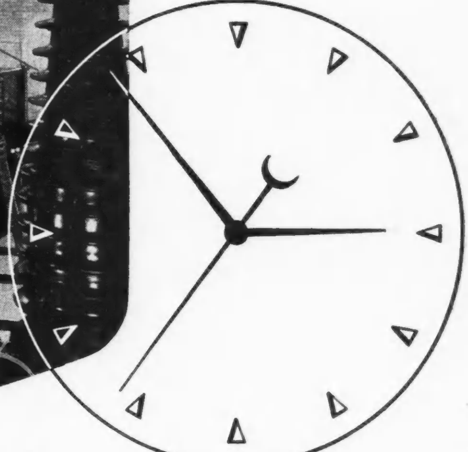

Heavy-duty cables undergoing cyclic-load testing at Anaconda Wire & Cable Company's Research Laboratory, Hastings-on-Hudson, New York. At left is a partial view of the giant tensile testing machine, over 3 stories high, which is capable of testing long samples at loads up to 200,000 pounds.

here's where Anaconda plays "BEAT THE *Clock*"

Years are compressed into minutes in the Cyclic Aging Laboratory of Anaconda's subsidiary, Anaconda Wire & Cable Company, at Hastings-on-Hudson, N. Y. Here, through rigorous 24-hour testing cycles simulating actual conditions but decidedly more severe, high-voltage insulated cable is tested for long life, stability, and other desirable characteristics.

By such tests, Anaconda beats not only the clock, but the calendar. Vital engineering data, essential in the evaluation of cable design, which would ordinarily take from 20 to 50 years of in-use operation to acquire, is now available in a year or two, or less.

This research geared to the future is no isolated "for instance." Rather is it typical of Anaconda's continuing policy of planning for tomorrow . . . a policy unmistakably expressed in Anaconda's company-wide program of expansion and improvement now being carried on at mines, mills and fabricating plants. This multi-million-dollar program is based on the premise that as the nation's need for metals and metal products continues to expand, so should Anaconda's ability to produce them.

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ANACONDA

COPPER MINING COMPANY

The American Brass Company
Anaconda Wire & Cable Company
Andes Copper Mining Company
Chile Copper Company
Greene Cananea Copper Company
Anaconda Aluminum Company
Anaconda Sales Company
International Smelting and Refining Company

A Special Study of the Public Utility Industry

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these cross-currents in the industry. There is still a big backlog of unfilled demand for gas for house-heating in many areas, and the industry should continue its rapid growth. The investor must watch carefully, however, to see which section of the industry is doing best—producer, pipe line, wholesaler or retailer. Up to now the producers and some of the pipe-lines have had the best of it.

It may be of interest to discuss the current outlook for the stocks of some of the large utility companies.

Commonwealth Edison, one of the most conservative of the large metropolitan utilities, has been very slow to seek a rate increase, although it earned a return of only about 4.8% on its estimated rate base in 1951-52. Recently, in conjunction with the announcement of a $40 million bond issue, a company official indicated that the management is considering asking the Illinois commission for rate relief. Possibly the company has been encouraged to do so by the recent decision in the Illinois Bell Telephone case. If Commonwealth is permitted to earn 6% even on an original cost rate base, this may work out quite favorably for stockholders.

Southern Company, which operates the southern segment of the old Commonwealth & Southern empire, continues to expand at a rapid pace. The company now has over 18 million shares of common stock outstanding—probably the largest amount of any electric utility. In its annual report for 1952 the company pointed out that the four states in which it operates—Alabama, Florida, Georgia and Mississippi — have outstripped the south as a whole in the past decade. During 1940-51 bank deposits have increased twice as fast in this area as in the United States, and sales of electric energy gained 259% compared with 217% in the south as a whole and 169% in the United States. Continued industrialization of the system service area appears in prospect, and with it further improvement in the region's economy. Earningswise, Southern Company has thus far been handicapped by the huge amounts of new common stock it has had to sell to finance its growth; it has suffered from "growing pains." There have also been some setbacks from droughts, but the increasing amount of steam generation will now reduce the effects of irregularities in hydro production.

Public Service Electric & Gas sells on a rather high yield basis, considering its size and importance. This has been attributed to such factors as (1) the company's large transit subsidiary, which has had a hard time making a living; (2) the rigors of New Jersey regulatory policies; and (3) the large amount of preference stock outstanding, future conversion of which would have a diluting effect on common stock earnings. However, the greatly improved position of the gas service, together with the rapid industrial growth of New Jersey, seem to be offseting factors.

West Penn Electric has made considerable progress in recent years in overcoming the handicaps of over-capitalization and weak system structure, which it inherited from the predecessor holding company, American Water Works & Electric. The equity ratio has now been greatly improved and while still somewhat below average, will doubtless show further improvement as the result of plowed-back earnings and equity financing. Share earnings have improved remarkably in recent years, and the industrial activity of the area served by the system is becoming more diversified. The dividend rate was increased recently, and further improvement may be envisaged over the next year or so if general economic conditions permit.

Answers to Inquiries

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February 28, 1953, the Airex Company showed an increase in sales of 112%. This year their orders are 54% ahead of those entered during the same period of 1952.

During the past year, a new factory building providing 120,000 square feet of additional working space was completed adjacent to the company's main plant in Irvington, New Jersey. At present it is being used almost entirely for defense production.

During the year, Lionel has expanded its line of toy trains and accessories including new locomotives, operating accessories and a completely new series of scale-dimension freight cars.

Airex has expanded its products into the salt water field with two new rods for surf-casting and boat fishing and a new salt water spinning reel, the Beachcomber.

A new fresh water spinning reel, the Vagabond, is also being introduced.

In addition, Lionel is coming out with a new stereo camera which will sell as a complete package, including camera, case, battery viewer and color film, and which will sell for substantially less than other stereo cameras presently on the market.

Grand Union Company

"As chain grocers have shown a good increase in sales volume in recent years, I would be interested in hearing what the Grand Union Company sales for the past year have been and also its program of opening new stores which will indicate company's prospects for growth."

P. H., Cape May, N. J.

Grand Union Company's total sales climbed to a record high of $184,056,855 for the fiscal year ended February 28, 1953, compared with $179,395,000 in the previous year, an increase of 2.6%.

Earnings after taxes were $1,726,276 compared with $1,801,358 for the preceding year. Earnings per common share after payment of preferred dividends amounted to $2.36 per share on the 621,737 common shares outstanding on February 28, 1953, as compared with $2.58 per share for the preceding period on the basis of the same number of shares outstanding.

Cash dividends of $1.00 per share and a common stock dividend of 5% were distributed during the year to holders of common stock. Regular dividends of $2.25 per share were paid to holders of preferred stock.

At a directors' meeting on April 9, 1953, there was declared a 5% common stock dividend in addition to the regular 25 cent cash dividend, both to be distributed on May 28, 1953.

An arrangement was concluded

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Management goes to school...

Executives* of The Pure Oil Company in the "classroom."

They won't be getting diplomas, but executives of The Pure Oil Company are reaping ample rewards by going to "school" again—after "absences" of from 10 to 40 years.

The school is held right in The Pure Oil Building—by professors from the School of Commerce of Northwestern University. Each term lasts nine weeks. And the curriculum is confined to case studies of human relationships and the communication of ideas.

Pretty abstract? Not a bit! As a matter of fact, it's intensely practical. Mutual understanding and confidence between management and employees is possible only if they can talk with each other . . . understand each other . . . and feel they are *all* members of the team.

We think that the willingness of Pure Oil executives to go to school indicates the kind of people who *are* The Pure Oil Company. And we feel that their attitude is important—just as important as all the physical improvements we've been making in our producing, refining, transporting and marketing facilities—to anyone interested in Pure Oil's future.

THE PURE OIL COMPANY · PURE · COMPANY, U.S.A.

Be *sure* with Pure

THE PURE OIL COMPANY, 35 East Wacker Drive, Chicago 1, Illinois

* This management group in the winter session is typical. Clockwise from lower left corner, their titles: Assistant Operations Manager, Refinery Operations • Asst. Secretary-Asst. Treasurer • Asst. Secretary-Asst. Treasurer • General Manager, Sales Service • Editor, The Pure Oil News • President, The Pure Oil Company • Assistant to Manager of Exploration, Geological • Vice President, Transportation and Supply • Chief Accountant, Refining Accounting • Senior Vice President, Refining • Assistant Vice President, Production • Senior Vice President, Production • Chief Engineer of Marketing • Attorney • Advisor, Transportation and Supply • Manager, Advertising Department • General Manager, Marine Division, and Executive Assistant • Production Engineer, Production Engineering • Executive Assistant, Marketing Executive • Professor • Regional General Manager, Marketing Executive • Assistant Comptroller, Systems and Methods Accounting • Assistant Vice President, Retail Marketing • Assistant Manager, Process-Refinery Technical • Assistant Vice President, Transportation and Supply • Manager, Analysis and Statistical • Chief Accountant, Producing Accounting • Manager, Sales Promotion and Training • Manager, Refinery Technical • Assistant Vice President, Wholesale Marketing.

Answers to Inquiries

(*Continued from page* 356)

with the Prudential Insurance Company for a long term loan of $3 million at an annual interest rate of 3⅞%. Proceeds are to be used for expansion and to retire $1 million of short-term obligations. A highlight of the year was the official opening of the headquarters supermarket in East Paterson, New Jersey. This is one of the largest food stores in the east and this modern store pioneered a new type of market lay-out.

Seven new markets were opened, twelve major renovations of stores completed, 127 minor renovations undertaken and 5 stores air-conditioned during the past year.

The company expects to open approximately 20 new locations in New Jersey, Long Island, Westchester, Connecticut, Massachusetts, Vermont and in central and northern New York State during the coming fiscal year. Many of these markets will be opened in major shopping centers.

Carrier Corporation

"With warm weather ahead, air conditioning corporations should do volume business. Please present latest earnings of Carrier Corporation, dividends and backlog of orders."

T. M., Elmira, N. Y.

Net profit of Carrier Corporation, air conditioning and refrigeration equipment manufacturer, for the twelve months ended April 30, 1953, was $4,827,126 or $4.48 per common share, as compared with $3,856,820 or $4.19 per common share for the preceding similar period.

Before income and excess profit taxes, Carrier earned $13,677,126 during the twelve months ended April 30, 1953. The comparable figure for the corresponding period a year earlier was $10,932,750. Income and excess profit taxes per common share for the two periods were $8.68 and $8.19, respectively. Earnings and tax figures have been adjusted in each instance to reflect retroactive changes in previous tax accruals.

Per share earnings and taxes are calculated on the basis of the common stock outstanding at the close of each period. They reflect an increase from 866,229 shares to 1,019,100 shares as a result of a substantial conversion of both issues of preferred stock which has taken place in recent months. The conversion rates for the 4% and the 4.8% series are, respectively, 1.6 shares and 2 shares of common for each share of $50 par value preferred.

During the period under review, completed sales totalled $141,602,860 and new orders were booked in the amount of $167,612,140. The comparable figures for the 12 months ended April 30, 1952, were $85,044,351 and $74,973,152, respectively.

On April 30, 1953, Carrier had a backlog of unfilled orders amounting to $60,788,408 as compared with $34,779,128 a year earlier.

The above booking and backlog figures are exclusive of the unshipped portion of government contracts for equipment unrelated to Carrier's normal production, which totalled approximately $107 million on April 30, 1953, as compared to $50 million a year ago.

During the first six months of fiscal 1953 deliveries in the amount of more than $33 million has been made under extraneous defense contracts. Profit margins on practically all classes of the company's business were lower

than a year ago and costs are still mounting.

Dividends in 1952 totalled $1.40 and 45 cents quarterly is the current rate.

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Solving A Stock Market Mystery

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now turn to the individual members of the group and determine the special factors, in addition to group influences, which play a part in their market price.

Just as the major characteristics of maturity, growth and stagnation are the determining elements in group valuations, so do these factors apply to the individual companies. In other words, a group may be in a dynamic stage but an individual company or companies may show fewer growth characteristics than the industry, as a whole. This may be due to lack of progressiveness in developing new products or to inherent flaws in the financial structure, or to ineffectual management. Whatever the causes, and they can be many, the market will remorselessly put them into the scale and in weighing them will price the stocks at considerably lower levels than the average. Several examples, taken from the table, will illustrate this point.

In the drug group, for example, we find that Lambert is priced at approximately 9.5 times earnings while Abbott Laboratories is priced at 18.6 times with earnings approximately the same amount per share. In other words, the market says that Abbott's earnings per share are worth twice as much as Lambert's. What is the reason for this unusual discrepancy Upon reviewing the companies, we find simply that for the past 20 years, with only one exception in 1946, Lambert has not recovered the earning power it enjoyed before the depression. Though it has maintained its excellent products, it has not substantially broadened their scope, with the result that other companies have forged ahead. As a matter of fact, sales have remained at substantially the same levels for some years. Earnings have been relatively stable and dividends paid without interruption. Nevertheless, the market, sensing a virtual ceil-

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Solving A Stock Market Mystery

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ing on earnings says that unspectacular regularity of divided payments and sluggishness of earnings at a moderate level do not warrant a materially higher level for the stock. The result, with the exception of a temporary spurt in 1946, has been that the stock has remained in a relatively narrow range. In other words, the characteristic comparatively low price-earnings ratio seems to have been justified.

Abbott Laboratories on the other hand, which is in a different branch of the drug business, has given a superior market performance over the years though its forward movement has at times been interrupted. Nevertheless, holders of the stock have benefited substantially over the years. We see here a typical example of dynamic growth. Sales have advanced more or less regularly and are now about six times those of 15 years ago. Products of the company are innumerable and steadily expanding. Research activities are extensive and the company is among the foremost in this respect. Reflecting the steady impulse toward growth, the company in recent years has split the stock twice, once in 1946 and again in 1949, both times on a two-for-one basis. During the years, the stock has sold at a characteristically high price-earnings ratio in reflection of its growth potentials.

Another particularly interesting example of variations in the price-earnings ratio in the same industry is to be found in the comparison betwen Southern California Edison and Cleveland Electric Illuminating. The former is priced at 10.8 times 1952 earnings and the latter at 15.0 times. This is an unusual discrepancy for this group, in which wide differences in the ratio do not occur frequently between the individual companies.

The average price-earnings ratio for the utilities is 12.5 so that we see that Southern California Edison's earnings are valued somewhat below normal and the Cleveland company's earnings considerably above. The substantial difference in the valuation between these two stocks, notwithstanding that their per share earnings are about the same (please see table), is due to the more striking potentials of Cleveland Electric as compared with Southern California Edison. While the latter is in a growing territory with the company furnishing power to such important industries as petroleum, moving pictures, airplanes, oil well equipment and the new growing steel industry, it is burdened with excessive public regulation and it has been having difficulty in securing an adequate rate structure. Furthermore, there is a problem with water and the occasional droughts which occur have an adverse effect on earnings.

The company covers its dividends by a substantial margin and the stock is considered a good investment but contrasts with the more dynamic Cleveland Electric. This company operates in the heart of a tremendously growing industrial empire, stretching for about 100 miles along the south shore of Lake Erie. In this complex are to be found some of the

most important industrial plants in the nation. This region is vital to industrial growth and will probably become even more important over the next decade. With the exception of competition from the municipally owned plant in part of the city of Cleveland, the company is dominant in this area.

In conclusion, it is pertinent to point out that dividends per se do not play as important a part in stock valuations as might be imagined. If the reader cares to work out the yields, he will find that the higher yields automatically obtainable from stocks with a low price-earnings ratio are ignored in favor of the earnings factor. This is to say that the ultimate consideration in the market value of stocks is dynamism in earning power. Only those stocks with an assured outlook for the compounding of earnings, as is true of all genuine growth stocks, are given a higher-than-average valuation as to stock market price.

Dynamic Business Impact of St. Lawrence Seaway

(*Continued from page* 317)

panies — M. A. Hanna Company, Hanna Coal and Ore Corporation, Armco Steel Corporation. Wheeling Steel Corporation, Youngstown Sheet and Tube Company and Republic Steel Corporation—all with plants contiguous to the Great Lakes, are pressing for U. S. participation in the project.

In testimony before the Senate Foreign Relations Committee as it considered the Wiley Bill, E. M. Richards, Republic's vice president, declared diminishing ore supplies in this country made importations a necessity of the very near future, and pointed out that war-time importations from Venezuela and other overseas areas would be hazardous and expensive, while importations from Labrador, moving down an inland waterway would be comparatively safe. He anticipated annual importations of 10 million tons by 1956, provided the Seaway construction begins within the year.

Refusal to Participate a Mistake?

Pointing up that it is now apparent that Canada will "go it alone" if we do not chose to participate, the Republic Steel executive expressed the view that we of this country, especially our industries, would be at a distinct disadvantage in the matter of tolls and management of the Seaway. He did not say that we would be discriminated against in the matter of tolls, but said that in the future years an American voice in the management of the Seaway will be desirable for the proper representation of this country's economic interests, and concluded with the observation that failure of this country to become a part of the enterprise would be "a great and potentially painful mistake."

President Eisenhower, in his endorsement of United States participation, pointed up the defense angle and the necessity for American "say-so" in the protection and operation of the waterway in the event of war.

One difficulty in appraising the impact of the Seaway on our economy has been the mass of conflicting claims. Study of public

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Dynamic Business Impact of St. Lawrence Seaway

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hearings before Congress and of literature published by proponents and opponents does not reveal, anywhere, a survey by a totally impartial body. Testimony and claims have been violently partisan—either the Seaway would be a blessing of untold economic benefit, or it would be a blight upon a vast portion of our industry, notably transportation.

There have been claims that it would liquidate itself in far less than 50 years, and there have been counterclaims, often supported by seemingly indisputable figures, that it would be a financial burden. Somewhere between the two extremes lies the truth, but we will never know it until some impartial body without interest in transportation, finance, or other industry, studies the proposition from every angle, unaided (or unhampered) by testimony from *pros* or *cons*.

With this fog of uncertainty behind us, but by no means dispelled, let's try to move along on the assumption that the Seaway is to be completed, either by Canada alone, or by that country and the United States. If it is done by Canada, we will be at some disadvantage in the matter of tolls and management and, in the event of a war in which Canada was a neutral, we might be at further disadvantage.

American industries which would gain by the Seaway are too numerous to catalog here. The same is true of Canadian industries, but we can summarize the principal ones, at the same time speculate on what industries might be damaged. First, there is no question that our steel industry would profit from importation of Labrador ores, *provided* the Seaway is of sufficient depth to accomodate an appreciable annual tonnage. As our basic steel industry profited, so would those lesser industries who use large quantities of steel. Our grain and lumber industries of the West would likewise gain, when, as, and if the Nations of the Old World again became profitable markets. Water transportation from a Great Lakes port to Europe would be less than rail to an Atlantic seaport, thence by sea to destination. Similar advantages would be had by our machinery and other manufacturers close to the Great Lakes or to the West of them. Likewise, there would be gains for some of our Mid-West and Western manufacturers who look to overseas areas for their raw materials.

The publishing industry of the United States, except for that portion in the East and Northeast would profit. Newsprint and wood pulp would certainly move in at lower freight costs. And it must be borne in mind that we look to Canada for much of our newsprint and for paper-making wood pulp.

Effect on U. S. Railroads

The principal U. S. industry that would be hurt by the Seaway is the railroads. Export freight they are now moving from the Mid-West, the West and those areas accessible to Mississippi River transportation, instead of going to Atlantic ports by rail, would move into a Great Lakes port for Seaway movement to the Atlantic. And, they would lose business, but perhaps not so large, in the opposite direction. All of this would detract from tonnage handled in such Atlantic ports as Boston, New York, Philadelphia, Baltimore, Norfolk, Wilmington, Charleston, Savannah, Miami—even New Orleans, and possibly Houston, Texas.

Canadian industries to the West—grain, lumber, oil, to name a few—would benefit by the Seaway. And, if the new channel produced new export business, railroads operating from the western areas of the Dominion to Lake ports would profit. Rail lines East of Lakes ports would suffer, naturally. Also due to gain, provided European Nations become prosperous again, is Canada's relatively new aluminum industry. These Canadian industries would gain much if Canada, through building the Seaway itself, should favor its own industries in the matter of toll rates.

There are physical features of the Seaway as proposed by Canada, and the Wiley-Dondero bills, which raise fair questions as to its economic desirability. These must be touched upon if we are to fairly appraise the project—if we are to decide that we should participate,

or let Canada "go it alone."

The current legislation before our Congress actually would give us real "say so" in a very short section of the Seaway, the remainder being with Canada. Undoubtedly this would complicate the problems of operation and maintenance. Perhaps this alone would make it desirable that the entire undertaking be by one nation or the other, preferably the United States as we do have the funds to overcome shortcomings inherent in the Seaway Canada now proposes.

Canadian Proposal Inadequate

Briefly, the Canadian proposal is one which is *entirely inadequate* to accomodate the volume of traffic necessary to make it the artery of industry and trade desired, or to make it an effective channel for the materiels of War should the world be plunged into a third blood bath.

As now proposed by Canada, the Seaway would have a maximum depth of 27 feet in a major stretch, and this is entirely inadequate to the moving of real tonnage or the passage of ships of any appreciable cargo capacity. Less than four per cent of U. S. flag ships could utilize so shallow a waterway, while not a single ship now under construction in American shipyards could navigate a 27-foot channel. Some of the little 3,000 to 5,000 ton tramp steamers of foreign registry could navigate the channel, but they would be the only vessels which could do so.

The Canadian Minister of Transport has said that oceangoing vessels are not expected to use the Seaway and that foreign merchandise must be transhipped at Montreal, thus adding materially to the cost of the merchandise so handled. This may be one reason why, if there is to be a Seaway, the United States must participate to a far heavier extent than is now contemplated, for we are the one Nation which can raise the funds (around $1 billion) needed to assure a channel of from 40 to 45 feet depth, a channel which would accommodate oceangoing vessels and thus avoid the costly transshipment at Montreal.

The channel, as now proposed, would doubtless handle barges suitable to the transport of Labrador iron ores, but it has been testified at one Congressional hearing – and never successfully refuted – that a 27-foot channel would accommodate a maximum annual tonnage of only 20 million. Other testimony has been that within five to 10 years we must have Labrador importations of around 40 million tons each year. This would seem to rob the Seaway, as proposed, of much of its asserted value and necessity.

On the other hand, should we with Canada (or by ourselves) undertake the creation of a Seaway that would accommodate the vessels of deeper draft, there is not a single Great Lakes harbor which would accommodate them. This would necessitate the expenditure of more millions of dollars. In fact, as of this moment there is not a Great Lakes harbor which would accommodate vessels of only 27 feet draft.

A last factor is weather–the Seaway would be navigable for seven, not over eight months, each year. This would mean the railroads, in which billions are now invested, would be deprived of major revenues for more than half of each year, perhaps necessitating Federal subsidies if they were to survive against Seaway competition.

A Time of Decision For Labor

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biles; to some extent lumber and coal—acting with a certain concert, can meet wage demands and then, again in a concerted manner, raise prices. Existing elements of monopoly make this possible but the smaller business can not follow this course. The lesser manufacturer pays higher for materials as he usually buys in smaller quantities; often he does not enjoy as favorable freight rates and always he is in the midst of the closest and keenest competition with other lesser manufacturers. He lacks large capital backing and is unable to meet the menace of strikes.

The inevitable result is that it is the smaller manufacturer who is forced out of business with sore detriment to the national economy. Monopoly is intensified and employment is lessened. Entire local communities, small in themselves, may be forced into distress through failure of one or two small companies. When this is multiplied over the country, every evil economic symptom is at work! Ingenuity in competition and efforts to meet higher wages such as self-service in many stores and the elimination of free delivery—once a matter of course—all these measures tend to decrease employment and yet, in the end may fail to insure business survival.

We have used the term tools in a broad, generic sense meaning all the implements of production which labor uses. With more specific reference to machine tools, the very pulse of so much of American production, it is interesting to note what the National Machine Tool Builders' Association very recently has said:

"Now that slackening of defense orders has made it possible to get faster deliveries, the Nation's metal-working plants making civilian products are purchasing in increasing volume the machine tools they have long needed. There appears to be a realization throughout all industry that the country is entering a period of intense competition where the cost of production will be a vital factor. With little prospect of reductions in wage rates, machines which will make possible more output per man hour are the answer to survival in the competitive field."

And the American Iron and Steel Institute observes: "The industrial revolution is entering a new phase. The emergence of automatic control on the production line is freeing more and more men from inefficient hand labor. Machines, too, are being freed to work with the speed and precision necessary to satisfy human needs." The machine age has vastly increased the employment of labor and the production of articles of consumption for all but no process can continue in health if natural laws are ignored.

Labor's contribution is indispensable but labor must recognize, unless the conscious direction is toward socialism, that management must be given full recognition for what it has done. Management's tools, plant, equipment and such productive elements rose from $334,002,000,000 in 1930 to $525,136,000,000 in 1948 (the latest official figure). And in 1952 $24,123,000,000 was spent in new plant and equipment. Yet corporate returns have been steadily declining. True, the sums look large but the corporations, too, are using stage money. And one of management's first duties to labor and to the Nation is to provide those pools of capital which cushion slack seasons and make maintenance and expansion possible. Any policy, advanced by labor or any other segment, which seeks to destroy the nice, natural adjustment, works a destructive disservice to mankind!

BIG BUSINESS METHODS FOR THE SMALL BUSINESS

Edited by ROBERT S. HOLZMAN and A. KIP LIVINGSTON

Tailored to fit the requirements of executives in small business, here is a book of expert managerial knowledge and guidance which ordinarily are available only to the largest corporations. The twelve contributing authors—each an outstanding authority in his field—interpret the latest and best practice in these essential aspects of the modern business operation: budgeting, finance, banking, personnel, pensions, profit sharing, advertising, law, insurance, taxes, office systems, profit control.

The book is organized in a question-and-answer form designed to provide easy reference to any specific topic in daily office use. The pooled knowledge thus presented in this handbook will give every business executive direct access to the well-seasoned advice that big corporations have paid for over many years of expensive research and experiment, and have found successful under today's business conditions.

HARPER $5.00

Trend of Events

(*Continued from page* 308)

mous expansion of the "military" industries such as aircraft and electronics, which, in turn, has stimulated a very great influx of population. It is now feared that if defense orders are cut back materially, there may be a problem of unemployment in these regions.

It is important to bear in mind, however, that the Coast is not quite as dependent on defense work as alleged by the doubters. In the past few years ,there has been an important development with respect to the growth of basic industries such as steel, chemicals, textiles, furniture; and also, expansion in light metals such as aluminum and titanium. These industries, in time, will supply the needs of a steadily growing population which will require its own local source of supply instead of being entirely dependent, as in former years, on the older manufacturing centers of the country.

While some temporary dislocation seems probable when defense orders are reduced in the next year or so, it is not likely that the hundreds of thousands of new workers on the Coast are going to trek back to the East to find employment. These people consider themselves permanent residents of California, Oregon and Washington and have full confidence in the future of these states. It may take some time, of course, for the civilian industries to take up any slack caused by smaller defense orders but, judging by the remarkable speed with which the Pacific Coast has industrialized itself in recent years, it is not to be doubted that this important region will surmount any economic difficulties it may be called on temporarily to face.

AN UNWISE DECISION...A United States Circuit Court has overruled the decision of the Federal Power Commission that the Phillips Petroleum Co. was exempt from the FPC's controls over natural gas companies. We may assume, at least until the Supreme Court reverses the Circuit Court, if it does, that the decision is legally correct. For reasons that have nothing to do with legal hairsplitting, it is extremely unwise.

(*Please turn to page* 366)

Trend of Events

(*Continued from page* 365)

When this question arose before, Congress passed legislation denying the FPC jurisdiction over oil companies which merely gather natural gas as an incident of their recovery of crude oil, and pass it on to pipeline companies which sell it to users.

The motive behind this was to make sure that as much natural gas as could be recovered from well operations was gathered and used. We read constantly of the hundreds of trillions of cubic feet of natural gas in proved reserves. The size of the figures obscures the fact that all the gas in those reserves will last the country at 1952 usage no more than 25 years. We cannot afford to waste any of it.

If the oil company can collect the gas, sell it, and let the pipeline wrestle with the FPC, well and good. If the oil company is to be entangled in FPC red tape, it will find some way to stop bothering with the gas. In 1952, Phillips Pete had sales of $720 million. Of these, pipeline gas provided a scant $4 million. So now Phillips Pete is declared to be a natural gas company, subject to all the FPC's rules and regulations. If this ruling is upheld, Congress will have to try again. It may be correct, but it isn't right.

As I See It!

(*Continued from page* 309)

enormous prestige with the public, which is not in the slightest degree abated, he has the undeniable advantage of having made his general policies crystal clear both on domestic as well as international issues.

With the Korean war drawing to a close, he is enabled to appear before the public as having fulfilled one of his major promises when he ran for election. He is thus assured of complete public support, and to make this assurance even more effective, he has widely decided to lay his case before the people in "fireside" chats.

No doubt the President realizes that he has reached an important juncture in his administration. Lacking full support among members of his own party, he apparently has decided to go to the people for support in what looks like the opening phase of a drive to assert real leadership.

BOOK REVIEWS

ECONOMICS OF BUSINESS ENTERPRISE

By LEONARD A. DOYLE

The author believes that students should secure from the study of economic theory some insight into the nature of rational business conduct in a business enterprise. There should not be a division between "theoretical" business practice and "practical" business procedure. First, the author relates practice to theory by developing the theory in terms of ideal conditions for rational price output decisions. Then he shows the more important modifications of these "ideals" necessitated by the present lack of data.

Stress is placed on the need for developing techniques in actual business which will provide more of the data required for rational operation. The "practical" presentation of the book emphasizes that much of current administration is defective precisely because the data for more rational policy are not available. By emphasizing that theoretically correct business practice often requires more information than is available, the text lays the groundwork for specialized work in each area of business by pointing out the gaps between what business needs and what it now has.

The book makes more extensive use of charts and tables than do others in the field. In most intermediate theory texts, the graphs used are those of average cost, average revenue, marginal cost, and marginal revenue. Although this text uses as many or more of these conventional average and marginal diagrams, they are subordinate to the total revenue and total cost charts. The charts are supported by tables in virtually all cases in which it is desirable to show the student how graphs may be prepared from accounting or statsistical data.

McGRAW-HILL $5.00

THE ECONOMIC DEVELOPMENT OF NICARAGUA

Report of a Mission Organized by the International Bank for Reconstruction and Development at the request of The Government of Nicaragua.

Few underdeveloped countries have so great a physical potential for growth and economic progress as does Nicaragua. How these resources can be developed and how this development can be reflected in a higher standard of living for the people is the subject of this appraisal of Nicaragua's economy.

The largest country in Central America, Nicaragua has, in relation to its present population, almost unlimited land for development. The Mission believes that, by making effective use of its land resources, Nicaragua can become an important exporter of meat, dairy, and other agricultural products. Continuing as a producer of timber and minerals, it should be able to develop a sound and well-balanced relationship between industry and agriculture. Of primary importance to this development is the completion of a network of highways, the improvement of port and rail facilities, and investments in agriculture and power. Concurrently, basic improvements in the health and educational facilities of the country's relatively small population will be needed.

THE JOHNS HOPKINS PRESS $5.00

THE BOYDS OF BLACK RIVER

By WALTER D. EDMONDS

There was always something going on in the rambling old mansion that housed the big Boyd family. The Boyds were country gentry in the old sense, and they lived to the hilt, as gentry could at the turn of the century, on a prosperous, sprawling farm in upstate New York.

It was a good life, overflowing with excitement, humor, good food and good drink, the smell of autumn leaves, the silence of deep snowdrifts, the clatter of the barnyard—all the million activities of country life at it fullest and best. You won't read more than three pages before you will find yourself an intimate, living part of it.

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Favorable and Unfavorable Factors In Market Outlook

(*Continued from page* 259)

downs in July will be more extensive, and in some cases longer, than heretofore, lowering production sharply. Probably the next significant business test will be the vigor of the post-vacation rebound in August and September.

A recession "around the corner" is widely expected, and substanially allowed for in stock prices. Measured by price-earnings ratios and yield factors, the market is at a medium level—neither high nor low. In that fact and in the prevailing sober psychology there would appear to be little basis for extreme market movement either way any time soon. Meanwhile, reaction has provided a better technical basis for a degree of seasonal improvement within the summer period. It could be given some impetus if EPT is not extended. What Congress will do about the latter is still not clear. A formal Korean truce might tip the scales for letting the levy expire June 30—but the truce could be quite a "mess" if the South Korean government stands by its currently indicated (as we go to press) threat not to abide by it.

Market softness over the last fortnight was more general than in some time, differing in degree among the individual stock groups; but with no important groups showing significant independent stregth. No change is called for in the conservative, selective investment policy we have heretofore recommended. — Monday,, June 8.

Answers to Inquiries

(*Continued from page* 359)

Eversharp

"I have been a subscriber to your valued publication for several years. Please furnish recent data on Eversharp with sales and earnings figures and also whether they developed any new products recently."

E. R., Ashland, Kentucky

Sales of Eversharp, Inc. for the fiscal year ended February 28, 1953 amounted to $19,960,136 contrasted with $16,604,960 in the prior year. Included in the current year's results were for the first time sales of the Climax Engine and Pump Division. Other income, including dividends and interest, gains on sales of securities and miscellaneous items brought total income for 1952-53 period to $20,440,137, compared with total income of $17,597,284 for the similar period last year.

Earnings for the year, after giving effect to U.S. and Canadian taxes of $1,042,000 were $1,753,286 equal to $1.86 per share (after preferred dividends) on the 903,924 shares of common stock outstanding at year-end. The current year's earnings include a tax credit of $456,926. This tax credit, represents the successful conclusion of various tax matters which have been pending for several years.

Net earnings in the preceding year were $1,616,926 equal to $1.70 per share (after preferred dividends) on the 907,924 common shares at the year-end. In the same year provision for U. S. and Canadian taxes were $915,000, before giving effect to excess tax credit of $290,000.

The company has made improvements in several of its divisions and development of new products. These included a new improved pen "The Vontura", improvements in blade production and the introduction of a new industrial engine.

The unsecured note outstanding, due July 1, 1962 was prepaid by $1 million during the year, reducing the outstanding debt to $1,207,000 and an additional payment of $190,000 will be made on or before July 1, 1953. The company's securities investment portfolio, as of February 28, 1953 represented an investment of $3,884,132 and had a market value of $3,944,777. The company purchased 4000 shares of its common stock during the year and 1000 shares subsequent to March 1, 1953. This treasury stock will eventually be cancelled.

Dividends in 1952 totalled $1.40 per share and 35 cents quarterly has been paid thus far in the current year.

BOOK REVIEWS

Investments

by JULIUS GRODINSKY

This volume provides sound criteria for the evaluation of investments. Its practical, realistic approach focuses attention on the sources of investment income, the qualitative appraisal of the issuer, the establishment of standards for the selection of industry, issuer, and security, and the analysis of market prices. The stages of industry and company life cycles—pioneering, expansion, stagnation, decay — are described.

Throughout the book, compact and practical illustrations from numerous sources in a wide range of industries are carefully integrated with the discussion. The interplay of such forces as managerial policies and personalities, boom and depression, financial structures and ratios, the movement of prices, and the investment phases of taxation and regulation is traced; their influences and implications are applied to investment practices.

Ronald Press

Zorba The Greek

By MIKOS KAZANTZAKIS

Alexis Zorba is an old Greek workman who accompanies the narrator,, a bookish philosopher, to Crete to exploit a mine he owns there. Zorba is a figure created on a huge scale: his years have not dimmed the flame by which he lives, the gusto with which he responds to all that life offers him, whether he is organizing the work at the mine, coping with mad monks in a mountain monestery, embellishing the endless tale of his past adventures, or making love to Dame Hortense.

Nikos Kazantzakis is one of the most distinguished and individual of modern Greek writers, and in *Zorba the Greek* he has written a book that lives by a vitality and rhythm that seems to owe a little or nothing to the contemporary traditions of the Western novel. It is bursting with wit, fantays, and enjoyment of life, and at the same time has a continual undertone of serious philosophical reflection. *Zorba the Greek* is Rabelaisian, a Don Quixote in which the roles of the knight and Sancho Panza are reversed, plus a distinct Arabian Nights touch.

Simon & Schuster $3.50

The American Way

By SHEPARD B. CLOUGH

How have we come to be the most powerful nation in the world today? We have the greatest industrial potential in the world. and the highest per capita income. We can look forward, probably, to increased leisure and development of the arts, to the things that will make a distinctive American culture. But what brought this about?

Our unparalleled economic success has brought material prosperity to all. Also it has made us not only the most powerful nation in the world, but augurs well, Professor Clough maintains, to permit us to become the cultural center of Western civilization. In our present situation there is not only the challenge of world political leadership, but also of cultural leadership.

For those who would understand our predominant position in the world, Professor Clough clearly and briefly helps us to understand ourselves, our strengths and our weaknesses. His book is enlightening and thought-provoking to the intelligent reader concerned with our life today and the possibilities and pitfalls that lie ahead.

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